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## CONTROL OF BANKING IN HONGKONG

Under the Banking Ordinance, 1948, the Governor in Council has been empowered to grant or refuse the issue of licences to banks operating now, or intending to establish themselves in the future in this Colony. Among the Objects and Reasons of the Banking Bill, as outlined by the Attorney General when introducing the new legislation, was mentioned that control of banking was found necessary in view of the fact that a large number of banks and banking firms, having established themselves here after the war, possessed inadequate capital while others conducted mostly speculative business which often was in contravention of the exchange and trade regulations of Hongkong and China. That special reference was then made to the fact that many local banks infringed the exchange and trade regulations of China has been interpreted in Nanking as signifying Hongkong Government's intention to assist the Chinese authorities in their endeavour to reduce, if not to stamp out altogether, the operation of Chinese banking firms' business in the black markets.

At present the registration of all banks in the Colony is proceeding and banks will soon be issued the requisite licences authorising them to conduct financial business here. A certain amount of inquiries and investigations will, however, be necessary before all existing banking establishments, i.e. banks incorporated here as companies or incorporated abroad and registered in the Colony, as well as so-called Chinese native banks, will obtain the permission from the Governor in Council, through the Financial Secretary, to carry on their trade.

Conditions of banking here were described in our issue of last Nov. 19 (p.596) while the provisions of the Banking Ordinance, 1948, appeared, in condensed form, in our issue of Jan. 28 (p.79). The total number of banks operating in Hongkong are: 14 European and American commercial banks, 32 Chinese commercial banks, approximately 120 native banks, 76 exchange shops and some 20 other Chinese banking firms.

## GOLD BUSINESS WITH CHINA

The Portuguese Colony of Macao, Far Eastern El Dorado and the cynosure of international gold bullion dealers, has assumed the position of the world's leading gold import market. It serves as a great Far Eastern distribution centre as well, although practically all imported gold has been and is being shipped to neighbouring China. No other market takes up similar quantities of gold in any shape which fact is due to the great deterioration in China where inflation and nationwide disorders compel the population to discard the printing press money of their government and seek investment in less ephemeral values. Gold has always been one of the favourite holdings of the Chinese people and those who have even the smallest possessions convert, at least a larger percentage of them, into gold. Progressive inflation and the extension of civil war cause stronger popular demand for gold and since the Chinese government no longer supplies the market—as was done prior to last February 17—the private gold trade has been offered an unprecedented chance to cash in on this golden (sic) opportunity. This is being actively done in and via Macao.

Although the International Monetary Fund has gone repeatedly on record with its disapproval of gold sales effected at higher than parity prices (US\$ 35 per oz.) all private gold business in this world is carried on at considerable premiums. In all countries who are members of the United Nations some action by their governments has been taken to prohibit internal and external gold transactions except at the official rates (I.M.F. parities). However, there is increasing evidence that such official action has not been accompanied by much, if any, success; it also appears that regulations issued by several governments were never intended to be taken seriously by their nationals.

Freely operating private gold markets exist in many leading cities, in Europe, in the Americas and very extensively in Asia. Portugal has not

been admitted to membership in the U.N.O. and, consequently, the Portuguese government is not bound to observe I.M.F. rules and can afford to ignore them entirely. This is being demonstrated in the case of Macao where a free gold market exists, gold imports, transshipments and exports can be carried on within the law but, of course, at a price: payment of official taxes and offerings of sacrificial cumshaws for the privilege of being selected as a licensed importer.

### Gold Sales in China.

Imports of gold into China during 1947 were officially recorded by the Chinese Customs at 389,905 ozs. which represented bullion partly repatriated by the Chinese Government from its wartime hoards in New York, partly acquired from the U.S. Treasury at the official price. Other official imports were not recorded although very large quantities—estimated at some 2 million ozs.—were sold by Central Bank of China during about one year to the public prior to the sudden and complete suppression of gold business of Feb. 17, 1947. These sales, inaugurated early in 1946 by the then Premier Dr. Soong in an attempt to bolster the diminishing value of Chinese printing press money, were made at a rate corresponding to the open market quotation.

In addition to these heavy official but never disclosed imports of gold from the U.S.—purchased at US\$ 35 and sold between US\$ 50 to 80 per oz. to the Chinese public—unofficial imports were effected since middle of 1946 by private gold traders and by a political clique in the Kuomintang (CC-clique). Such imports were, however, prohibited by Central Bank of China who insisted on their gold and silver export and import monopoly. The very powerful members of the CC-clique did not pay much attention to these protestations but private bullion dealers took precautions. These included mainly the safeguarding of protection by powerful political and military groups in the



Central and Provincial governments. To secure adequate protection the gold traders had to pay large bribes which, eventually, were charged, with interest, to the ultimate buyers.

### Supply of Free Gold

The outlawing of gold transactions in China for a short period paralysed gold business but slowly it recovered its composure and business went on as usual. The supply of gold was a rather difficult problem—for some time. Demand in the country continued strong but official sales were suspended and unofficial, as from Feb. 1947 termed black market, sales were prohibited. The latter obstacle meant, in practice, new expenses in the form of protection fees and miscellaneous bribes. But the importation of sufficiently large quantities of gold (bars, ingots, coins, 22 karat semi-manufactured gold, etc.) required a new line of action. There were, of course, the undaunted retainers of the CC-clique who brought some gold regularly into Shanghai but their services were not equal to the demand of the public which grew almost in the same proportion as the confidence in the stability of the Nanking Government and its currency disappeared.

### Macao's Chance.

In this hour of emergency the Portuguese Colony of Macao presented itself as the saviour. While the nationalists in China otherwise show their intense dislike of having to suffer from alleged Portuguese encroachment on their sacred soil and cannot forgive Portugal for her staying neutral during the last war, now all was forgotten and the fact that neutral Portugal was not a member of U.N.O. caused great elation by the same chauvinistic "murder" cries. The gold stream could now be directed to flow through Macao right to the Chinese customers.

Efforts were also made to induce Hongkong Government to reconsider its ban on gold imports and exports but to no avail. Only for a few weeks in late summer 1946 was Hongkong Government permitting a small quantity of gold (some 100,000 ozs.) to be imported here as shrewd financiers persuaded the respective officials, who were not quite familiar with the real intentions motivating the insistent applicants, that by doing so the local gold price could be lowered. As soon as the first gold from Mexico and the U.S. arrived here it was already on its way out to China.

Recognising their mistake Government here stopped any further issue of gold import permits. It was also then recognised that gold imports would tend to increase the unofficial exchange rate for US\$ thus causing higher prices for locally required commodities from the U.S.

Dissatisfied with the attitude of Hongkong Government many local fin-

anciers, native bankers and bullion dealers went to Macao where they found fullest understanding for their plight and any amount of gold import licences were subsequently issued by the Macao Government. As from the end of 1946 Macao developed into the Far East's Dorado and the gold stream was again flowing into China.

### Large-scale Imports by Flying Boat

The first issue of permits by Macao (Department of Economic Services) comprised 900,000 ozs. which were imported into the Portuguese Colony during 1947, viz. about 320,000 ozs. by ship and plane via Hongkong and some 580,000 ozs. directly into Macao, by a specially chartered Catalina flying boat. The transportation difficulties confronting Macao, having no airfield and only a small harbour which is silting up and can accommodate at best medium size river steamers, were not discouraging the determined gold traders. Even after Hongkong Government stopped the practice of transshipping gold, there was only a short period of embarrassment.

The final relief came when a Catalina flying boat was chartered (by Cathay Pacific Airways) and then a regular gold hauling service started. From East and West small mountains of gold were discharged by ships and aircraft at nearby Far Eastern aerodromes, especially Manila, Bangkok and Saigon. The flying boat commenced to operate a shuttle service between these and other airports (Rangoon, Calcutta, etc.) bringing to Macao the precious cargo by the tens of thousands of ounces.

The total amount of gold imported into Macao in 1947 is estimated to have amounted 1,100,000 ozs., viz. 320,000 ozs. transhipped via Hongkong, 580,000 ozs. discharged directly in Macao (flying boat) and about 200,000 ozs. which were also flown directly to Macao but which were not covered by a Macao import licence. The Portuguese authority issuing, against the payment of an official fee of \$1 per oz., licences discovered that such papers were not always surrendered after completion of the import and that many licences were used several times. Other licences were forged as there developed during 1947 a very lively market in trading, at heavy premiums, of gold import licences. Such papers were sold many times until they reached the actual importer, who paid in most cases \$8 to 15 per oz. (the difference between the official fee of \$1 and the amount paid by the importer went into the pockets of highly connected people in Macao, certain native banks and middlemen).

### Macao's New Order.

As from the beginning of this year Macao instituted the "new gold order" by increasing the official import duty to \$2 and \$3 respectively for direct importation and imports in transit,

issuing licences for 50,000 ozs. each in the name of one importer only, demanding a deposit of 10% to be made to the Banco Nacional Ultramarino (State bank for the Portuguese Colonies), demanding the surrender of 1% of the US\$ exchange required for payment of imports, etc. (Details in our issue of December 17, page 683).

A tentative ceiling for imports for 1948 was later announced viz. 20 licences of 50,000 ozs. each, i.e. 1 million ozs. It was, however, indicated that if conditions would require it more licences might be issued. As regards imports in transit, which have to be cleared within 48 hours, no limit has been fixed. Since all imports are, with little delay only, re-exported no difference, in fact, can be drawn between imports and imports in transit.

Up to February 21, 10 licences of 50,000 ozs. each have been issued, while another four licences (covering 200,000 ozs.) are to be issued during the current week. During the first seven weeks of this year a total of 350,000 ozs. is estimated to have been already unloaded in Macao, viz. 250,000 ozs. covered by import licences and another 100,000 ozs. which appear to have arrived without any official sanction. Native bankers here and in Macao estimate that some 3 million ozs. of gold will be imported during 1948, involving an outlay of US\$ 120 to 130 million.

### Gold Accumulations in China

There is no doubt that international bullion dealers are anxious to offer practically unlimited amounts of gold and have focussed their attention on Macao, that is: the Chinese buyer. The capacity of the Chinese to absorb gold, and at prices which are 75% to 100% above the parity, remains a baffling experience for bullion dealers in New York and elsewhere. It is of course evident that progressive monetary inflation in China greatly stimulates the general public to acquire gold and to disregard the price at which they can do so. But the steady consumption in a country which is often believed to be extremely poor goes to prove that such notions require revision in the light of this indisputable fact. There is sufficient gold hoarded in the country to guarantee a stable currency if such gold could be nationalised. Furthermore, very large foreign currency holdings, inside and outside China, and other foreign investments by Chinese citizens—if made available to a popular government—may make a future Chinese currency one of the soundest in the world.

The free gold markets offer now sizeable lots at US\$ 40 to 41 per oz. but the average price in Shanghai has been moving between \$55 to 80. One wonders what quantities of gold could be taken off the free markets abroad if the Chinese buyers would have a chance to obtain gold at around US\$



43, that is considering transport, insurance, brokerage fees but cutting out the colossal "squeeze" which is responsible for the difference between the free New York and the black Shanghai market rates.

### Exchange Settlement

While gold is being airlifted into Macao the question of settling accounts is being attended in Hongkong. The unofficial US\$ market is largely operating for the benefit of the gold trade. If not for the regular and often very strong demand by importers (native banks, principally) for U.S. bank credits and even notes the local rates would be considerably lower than they are now. At certain periods it is necessary for importers to find cover elsewhere as locally available US\$ resources easily dry up. At the current rate of gold imports into Macao the unofficial quotation for free funds in New York must remain very high (equalling a cross rate of US\$ 2.85 to 2.95). Other exchange markets have been recently trailing Hongkong by a fair margin.

Continued heavy gold imports into Macao may tend to reduce further the unofficial sterling/dollar cross rate although arbitrage operations will in due course balance the local rate with quotations prevailing elsewhere. Nevertheless, the insistent demand for TT New York here causes repercussions in other financial centres and the tendency for sterling cannot be but on the easy side.

Large amounts of so-called ornamental or semi-manufactured gold of 22

karat (in form of sheets, bangles, etc.) have been flown into Macao, part of which originated, according to the importers, in London. Such gold is sold by bullion brokers in Europe at about 15% premium over the official price and thus brings more dollars than if sent to the U.S. Treasury. However, while such procedure on the one hand appears as satisfactory, on the other hand sales against funds in New York may lead to bigger offerings of sterling in such markets where it can be sold at a larger than the usual discount.

### Chinese Native Banks' Operations

One local and one Macao Chinese bank dispose (as also several other native banks) of very large funds in New York and their overdraft facilities have greatly improved as their importance as gold traders is well appreciated in New York. It is these two banks who, almost like a monopoly, control and retail gold import licences to various gold dealers although they also retain for direct importation sufficient quantities. These two banks and a few more native banks are the principal buyers and sellers of U.S. notes and bank credits in any form. They transfer to gold dealers' New York accounts the full value of their imported gold immediately upon landing in Macao, and they collect here from all possible sources the requisite amounts in US\$ in order to replenish their funds in New York or settle their overdrafts with American banks. Quite frequently they have to buy US\$ in other markets where they remit sterling, through arbitrage houses, considering the local rate for TT New York too high.

US\$ funds accumulating here are not sufficient to cope with the demand of gold importers provided that the present stream is not abating. Hongkong's sources of supply are: inward remittances, largely from overseas Chinese in the U.S. (mostly in bank managers' cheques payable in the U.S.); export bills (commodities which can be freely exported to the U.S. or are required to surrender here 25% of proceeds only); U.S. notes (from returning Chinese residents in the U.S., travellers' expenditure, U.S. army and navy men on occasional visits, Shanghai "refugees"). In addition there is always some disposal of certain funds held in New York by local and China residents which, however, are filled up by fresh China flight capital.

The largest item in this list are the remittances of overseas Chinese which are now running at a monthly average figure of US\$ 5 to 6 million (including direct carrying of US notes into the Colony). Export bills in US\$, available to the local exchange market, are approximately around US\$ 3½ million per average month; but imports from the U.S. are almost double of our exports to America so that a considerable portion of inward remittances are required by importers of merchandise. The amount of US\$ funds held speculatively in New York from before the war and recent accumulations are impossible to estimate with any degree of accuracy, but it is certain that such funds including flight capital from China, in the form of credits in the U.S. or cheques and notes, have supplemented the local unofficial US\$ market which has attracted these resources on account of the high rate offered for US\$.

## BACKGROUND AND POSSIBLE DEVELOPMENTS OF THE CIVIL WAR OF CHINA

The international disappointment, felt about the situation in China as it developed after the conclusion of the war, has been during the last two years increasingly voiced in the United States press while the various publications in Britain and elsewhere observed some reticence. Recently, however, much blunt speaking was noticed in the British and other European press heralding, it appears, a change of attitude vis-a-vis the Chinese situation which so far has been—outside of the U.S.—treated with undue regard for what diplomats call "delicateness".

In the *New Statesman & Nation* of London an Austrian doctor, who worked in China from 1939 to 1947, has described the background and the present position of China's civil war, and he intimates the possible outcome of this struggle as well as the concealed strategy which is probably now shaping. Dr. Jensen (the author) has first acted as Medical Adviser to the Chinese Red Cross and other health organisations of the Chinese Govt., subsequently he served with U.N.R.R.A.

when he travelled both in Kuomintang and Communist controlled areas. Following is the slightly condensed report of the Austrian doctor.

\* \* \* \*

### The Background of China's Civil War

Few Europeans realise what the centuries-old feudalism of China means. It means, on the one hand, landlordism which exacts from 50 to 80 percent of crop values in rent; systematic exploitation of the people by corrupt government officials and the misuse of police and judicial power for personal ends; and the domination of the country's economy by merchant bankers and merchant generals whose wealth has been accumulated out of hoarding and speculating, illegal confiscation and requisitioning. It means, on the other hand, the dark, bitter evenings in peasant huts unlighted because there is no vegetable oil for the wick; the yearly seasonal famine before the new crop is reaped; the marginal existence of countless millions to

whom any unforeseen mishap spells starvation and death; the endlessly recurring problem of the peasant family stricken by Kala Azar, which can only afford the money to pay for the cure of one member, the strongest, so that he may work while the rest, without medical aid, may at least eat.

This feudalism in China could survive as long as it did because peasant revolutions were again and again beaten with foreign help. Moreover, the magnitude of China, an atomised society of numberless small communities, made it extremely difficult to organise, in peasants' revolts, a base large enough for prolonged warfare, offensive as well as defensive. This has now been accomplished, for the first time in China's history, by the Chinese Communist Party, whose success is due to the effective use it made of the special conditions created during the Second World War. Whereas the great feudal families of China, using the Kuomintang Party as their instrument, sought and secured, during the war, a tighter monopoly of poli-



tical and economic power, they were opposed at last by a new *democratie massive*—not strictly Socialist, but based on re-distribution of land in peasant ownership, administration by elected village committees, a great drive to wipe out illiteracy, and a determination to develop, through State enterprises and industrial and agricultural co-operatives, an economy in which there would be no room for feudal poverty or feudal privilege.

#### Differences Develop.

*Between feudalism and the "new democracy" the final struggle was inevitable; the differences admitted of no compromise.* For a moment, when the Sino-Japanese war began in 1937, it looked as though national unity might be brought about. The Communist Party renounced its policy of expropriating landlords, and replaced it by advocacy of a system of reduced but guaranteed rents, in order not to alienate any class which could contribute to the war effort. The Kuomintang Government invited the Communist leaders, Mao Tze-tung and Chou En-lai, to take part in the newly organised 'Peoples' Political Council, and undertook to equip and pay a number of Communist armies. The liberal middle-class, consisting of a small but vocal group of intellectuals and some industrialists in Shanghai and other cities, hailed with enthusiasm what they thought was a new era of political freedom.

Two years later the picture had completely changed. Most of the young patriotic intellectuals were in Kuomintang concentration camps. There had been the "incident" in the New Fourth Army, when 10,000 Communist troops had been massacred by the army of General Ku Tsu-tung, on the direct orders of Ho Ying-chin, the Minister of War. It was only too apparent that the reactionary feudal forces, who had grudgingly assented to the administration being given a liberal tinge in the first flush of the patriotic war, had re-asserted their monopoly power over the Government and the Kuomintang Party.

This was due partly to the fact that the liberal groups, both within and outside the Kuomintang, had lost their economic basis. The industrialists who had counted themselves "progressive" had either become collaborators in order to save their factories, or they had emigrated with the Central Government into the interior, thus becoming passive clients of Chiang Kai-shek's purse. The same thing happened to the intellectuals who joined the exodus into the "Big Rear"; they became dependent on the Government for their daily bowl of rice, and Chen Li-fu, the Fascist-minded Kuomintang Minister of Education, used the economic whip to enforce political servitude on professors and students alike.

#### Kuomintang Strengthens.

On the other hand, the power of China's "bureaucratic capital" was enhanced. The big agricultural hinterland could still be bled by the tax collector; shortages made hoarding and speculation more profitable than ever; trading with the enemy brought princely rewards; and the peasantry could be profitably squeezed by the corrupt agents who carried out the conscription law. The feudal families, re-entrenched round Chiang Kai-shek, more and more based their war strategy on a policy of waiting for the Western Powers to beat the Japanese and meanwhile bottling up the Communist Army in the North-west corner of China. For popular grumbling the remedies were "thought control," concentration camps and the tender mercies of the Secret Police.

Meanwhile, the Communists had put the war years to effective use. Vast stretches of land behind the Japanese lines had been transformed into guerilla areas, where local democratic administrations were organised. The initial steps which were taken towards land reform, through reduction of rents and sales of parts of the (now less profitable) big holdings to landless peasants, had made millions in the Liberated areas regard the Communist Party as a liberator in a political as well as a military sense.

Could an accommodation between the Communists and the Kuomintang have been reached in 1945? The Communists certainly made an effort to secure a peaceful settlement. They recalled all their troops who were then stationed south of the Yangtze, and offered to agree to a unification of all Chinese military forces under a central command. Their one stipulation was that the Central Government must be democratised and that, pending a general election, the local administrative bodies in the Liberated areas must be recognised. *To Chiang Kai-shek these terms were unacceptable. He realised at once that land reform and "village democracy" would cut at the very roots of the economic basis of feudalism. Counting on American support, and having at his disposal huge dumps of delivered, but unused, American war equipment, he was not disposed to listen to the "moderates" in the Kuomintang, or even to General Marshall. The "new democracy," he decided, could, and must, be suppressed by force of arms. Blood was his argument: the stage was set for the civil war.*

#### The Three Phases of Civil War.

The end of the Second World War found the Kuomintang Government with its armies bogged down in the "Great Rear," while the Communists had their troops widely deployed in the vast territories behind the Japanese "front" from North China to South Kiangsu and Chekiang and in Fukien and Kwangtung. Thus Chiang Kai-shek's commanders had to travel across the breadth of China in order

to "accept the Japanese surrender" and to take over enemy-occupied areas. An immediate, full-scale outbreak of civil war was avoided, partly because the Communist troops made no attempt to enter cities such as Nanking, Shanghai or Peiping and withdraw from all areas south of the Yangtze, and partly because Chiang Kai-shek was in no position to concentrate his forces quickly against the Communists. In consequence, the period from the summer of 1945 to June, 1946, was characterized by conditions of uneasy semitruce, frequently broken by local clashes between Kuomintang and Communist against the Japanese garrisons which, under instructions from Chungking, resisted the armies from the Liberated areas.

Meanwhile, Tsingtao, and other ports were occupied by U.S. Marines, and General Wedemeyer, U.S. Commander-in-Chief in the Far East, began the transport (continued by his successor, General Gillem, and by General Marshall, the President's envoy) of Kuomintang armies, moved by air and sea, to North China. Kuomintang forces made frequent inroads into the Liberated areas; Communist troops and peasant guerillas stepped into the vacuum left by the Japanese in Manchuria; and, in this province, hostilities between the Communist and Kuomintang troops sent North in American ships and aircraft developed on a considerable scale.

On January 13, 1946, a "Cease Fire" order was issued by both sides. Manchuria was excluded from the order; but the Communists evacuated Changchun, the capital, which was handed over by the Russians to Kuomintang forces. The "armistice" was extended to Manchuria on March 27. Five days later, however, hostilities broke out in the province on a considerable scale, and culminated in a decisive defeat for the Kuomintang forces in the first battle of Szepeinghai.

#### "Peace" Talks' Failure.

Against this background, peace talks were being held. Under the aegis of General Marshall there was a meeting in Chungking between Communist and Kuomintang leaders, as a result of which an all-party Political Consultative Conference was convened and decided on four measures:—

- (a) democratic re-organisation of the Central Government;
- (b) the calling of a National Assembly;
- (c) formulation of a constitution;
- (d) substantial demobilisation, and unification of Kuomintang and Communist Forces under a single command.

The order of these measures was important: without the democratisation of the Kuomintang one-Party regime, there could be no assurance that the other steps would be honestly taken. Hence little surprise was occasioned



when Chiang Kai-shek insisted on reversing the order. He wanted to have (numerically reduced) Communist forces brought under his command first; reform of the Government was to come last. The peace talks, in the end, came to nothing; throughout the spring of 1946 Chiang Kai-shek was busy mounting an offensive; and, in June, 1946, the Kuomintang launched an attack over the great plain of Hupeh. The first phase of the civil war was over.

#### The Second Phase of Civil War.

The second phase was characterised by Chiang Kai-shek's strategy of concentrated attacks on vital points. The immediate objective was to regain command of all towns and railways between the Yangtze and the Yellow River; the ultimate aim was the recapture of the whole of Manchuria. The Communists' tactics in defence were to "trade cities against men." Outnumbered at first, and heavily outgunned, they organised an elastic war of resistance. Up to January, 1947, in Hupeh, North Kiangsu, Chahar, Chehoh and Shantung, they gave up 165 towns and 175,000 square kilometres of country; but they inflicted such casualties in their retreats that they rendered 53 Kuomintang divisions ineffective. They also improved their armament considerably through the capture of American equipment from the Kuomintang troops.

Slowly, the balance of forces began to change. Between March and June, 1947, the Communists were forced to abandon 95 towns, including Yen-an, but they regained 153, and Kuomintang casualties, in killed, wounded and prisoners, rose to a total of over one million, including over 200 Generals. Signs, too, were beginning to be seen that the morale of the Central Government troops was falling; desertions began to reach high figures, and several Kuomintang divisions went over to the Communists with their arms and headquarters staffs intact. Conditions were getting ripe for a Communist counter-offensive.

#### The Third Phase—Counter-Offensive by the Communists.

This counter-offensive, which marked the opening of the third phase in the civil war, began with the crossing of the Yellow River by the Army of General Liu Po-chen on the night of June 30, 1947. He marched southward deep into the Kuomintang rear, which had been largely denuded of troops in order to feed the costly northern front, and established himself in the Tapien Mountain massif on the northern bank of the Yangtze River, between Hankow and Nanking. Chiang Kai-shek could no longer ignore this threat to

the two vital Central China cities and the Yangtze crossings. After some hesitation he withdrew troops from other fronts and concentrated them against the new Tapienshan Liberated area.

The weakening of the Kuomintang's northern front was the signal for large-scale Communist counter-offensives in Manchuria, Shantung and north of the Yellow River, while General Chen Yi, from the east, and General Chen Keng, from the northwest, broke into the Central Plain between the Yangtze and the Yellow River. Together with General Liu Po-chen's forces they transformed this into a great battleground, in which they threatened Chiang Kai-shek's vital centres on the key railways—the North-South Peiping-Hankow, and the East-West Lung-hai lines. Chiang's generals were outmanoeuvred. They called off the Tapienshan campaign, yet failed to save their strong-points and forces on the Central Plain.

By mid-January, 1948, Manchuria had been all but lost to Chiang. In the Shantung Peninsula he held only Chefoo and a bit of the northern coast. Kalgan, Peiping, Tientsin, Paoting, Hsuehchow and Tsingtao were surrounded by a hostile countryside. Taiyuan, Chengchow, Kaifeng and Yen-an were encircled. The Liberated areas now stretched to within a few dozen miles of Nanking, and large areas south of the Yangtze River were already in the hands of guerillas and insurgent peasants. Columns of the People's Armies were reported 350 miles south of the Yangtze, linking up and co-ordinating their activities. They were now on the offensive on every front, dictating both the pace and direction of the fighting.

#### Semi-Anarchic Conditions.

Can Chiang Kai-shek's crumbling position be retrieved by further American intervention on his behalf? In terms of military strength the answer is almost certainly "No": his losses of manpower are probably decisive. In seventeen months of fighting the Communists claim to have accounted for nearly 1,700,000 Kuomintang troops, and neither arms nor financial assistance from the United States can compensate for these casualties. Moreover, while the Communist forces are consolidating their territorial gains by instituting land reform wherever they go, the feudal corruption in Kuomintang China is degenerating progressively into economic anarchy. All trading, imports and exports, is paralysed by arbitrary taxes and bureaucratic regulations which can be circumvented only by wholesale bribery. Opposition to Chiang is no longer confined to the workers whom his police beat up or the students whose

peace demonstrations have been bloodily suppressed. Chinese industrialists and traders are everywhere denouncing Chiang as the architect of China's ruin.

#### South China as Future KMT Base.

In these circumstances, there is some evidence that the policy of Washington is now being directed to fostering a new Centre group in China as a "bulwark against Communism." T. V. Soong, who represents the more progressive elements of the Kuomintang, is now governor of Kwantung; and there is talk of a large-scale influx of American capital into that province, with a view to its conversion into a base in which new anti-Communist armies could be recruited and trained, in addition to the forces being trained by American instructors in Formosa. Simultaneously a "liberal" general, Fu Tso-yi, has been appointed to command in North China, with headquarters in Peiping, and with instructions to "co-ordinate local administration in Hopei and Jehol." He is reported to be anxious to secure a cessation of hostilities in North China—an obvious move to gain time while the fresh forces are being organised in Kwantung.

#### Policy Makers in Hongkong.

A further development in the situation has been the recent establishment, at a Congress in Hongkong, of a so-called Left-wing Kuomintang Revolutionary Committee which has accused Chiang Kai-shek of usurping the Party leadership and selling China to "American imperialism." The Committee, which claims the support of several well-known Left Kuomintang leaders—including Fang Yu-Hsiang, the "Christian General," now in the United States—is calling for the implementation of the Principles of Sun Yat-sen, friendship with the Soviet Union, agrarian reform and "co-operation" with the Chinese Communist and other democratic parties. How this new movement will develop is not yet clear. It may be the beginning of a growing split which will disintegrate the whole feudal regime on which Chiang Kai-shek's power has been based. Alternatively, it may be a Washington-inspired move, on somewhat Machiavellian lines, to detach Chinese progressives from the Communist Party and to form a "Third Force" which would give a cover of respectability to the building up of a base in Kwantung over which Chiang Kai-shek, after a tactful temporary withdrawal from the scene, could resume control in his own good time. What is certain is that ultimately nothing can resist the course of peasant revolution in China: whatever twists and turns the civil war may take, that will go on.



## CHINESE GOVERNMENT MONOPOLIES AND PARTICIPATION IN TRADE

*In the report of the United Kingdom Trade Mission to China some reference to the increasing share, and importance of Chinese Government's participation in industry and trade were made which are published below.*

*The U.K. Trade Mission investigated conditions in China during October to December 1946. Since that time the expansion of State owned and operated industries and commercial corporations has been conspicuous.*

*After outlining the principles of Chinese State ownership and control of practically all heavy industries, mines, a number of light industries, (mainly the textile industry through the China Textile Industries Inc.) and miscellaneous industrial enterprises, the report of the U.K. Trade Mission to China deals with State operations and controls in the domestic and foreign commerce of China as follows:—*

\* \* \* \*

*The extent of Government participation in trade and commerce was difficult to assess accurately; furthermore, the causes to which the participation itself could be traced were various.*

*Undoubtedly the existence of extra-territorial rights in the past had given much impetus to government sponsorship of purely Chinese corporation as a means of "freeing Chinese trade from foreign domination" and much of the heritage of the past had been carried forward into present. It was difficult, however, to trace the various currents and directions in which this tendency had continued, and to differentiate between pure government enterprise and the activities of political personalities acting in no more than semi-governmental or even, by virtue of their political power, in private capacities, such was the confusion and dislocation prevailing in the political, financial and economic life of the country.*

*In the first place, the desperate need for the re-establishment of exports as the main source of foreign exchange had driven the Government into direct participation in the export trade, largely through the Central Trust, a trading organisation directly connected with and financed by the Government bank of issue, the Central Bank of China. This organisation, for example, was financing a large part of the silk industry of China, which had found considerable difficulty in marketing its products abroad. The Central Trust*

*purchased the bulk of the production and sold the products abroad for whatever they would fetch, in order to acquire foreign currency. It was also used as a means of procuring tea and silk and other articles which the Chinese Government had undertaken to deliver under various war-time agreements concluded with foreign governments for essential war supplies. With the facilities which it had at its command, the Central Trust could and did become an important instrument in government policy; under the prevailing difficult circumstances, however, it can become an unpredictable factor in the foreign trade of the country.*

*Of another nature was the Government-owned China Petroleum Corporation. This organisation had monopoly rights, not only in respect of oil production in China from the natural resources of the country, but also in respect of oil refining, and had as well the legal right to prescribe the level of imports of petroleum products and to control their distribution and selling prices. In this case, Government monopoly was used as an instrument of national policy; it seemed questionable whether it was in all respects the best instrument to use for gaining the ends envisaged, but there can be no doubt of the far-reaching effects of doing so.*

*Government participation in industry had also been established by virtue of the expropriation of enemy-owned property, notably in the textile industry in China as it existed before the war, and in many industries in the liberated territories of Manchuria and Taiwan. The operation of the China Textile Development Corporation formed to take over ex-Japanese textile mills, and other corporations, too, notably those formed to operate the Taiwan sugar industry and certain paper mills, were formidable industrial enterprises under governmental control.*

*The Government had also established a dominant position in the domestic shipping industry through its ownership of the China Merchants Steam Navigation Company. Though not achieving a monopolistic position, the advantages enjoyed by the Company in various directions placed it in a favoured position from which to compete with private enterprise, irrespective of purely economic factors.*

*More difficult to trace were the connections of manufacturing, trading and transportation corporations of all kinds that had been established by powerful bureaucratic groups utilising political influence to extend their own business interests, but we came to the conclusion that it formed no part of the official policy of the Government to encourage them.*

*The activities of the government sponsored trading corporations naturally infringed upon those of British and Sino-British merchant houses, but as a result of our enquiries at Nanking on the subject we were left with the impression that the Chinese Government trading would be.*

*It is important to realise that Government monopoly in China in many of its forms is an entirely different kind of economy from Government monopoly in Great Britain; rarely does it involve the socialisation of production or services but tends rather to politico-bureaucratic control of various sections of the economic life of the country with very varying purposes and results, and many of the measures introduced are designed to meet immediate emergencies, rather than to form the nucleus of social policy.*

### Monopolies in Taiwan

*At the end of 1946 some of the industries of Taiwan were owned and operated by organs of the National Government at Nanking, some by the Taiwan Provincial Government, others by a combination of both these, and in a number of the concerns controlled by the Taiwan Provincial Government there was part ownership by private individuals as well. Thus the Taiwan branch of the China Petroleum Corporation was to operate the oil refineries, the National Resources Commission the aluminium plant and copper mines, the National Resources Commission and the Taiwan Provincial Government together were to operate the electric power plants, sugar, paper, cement and fertiliser factories, machine shops and shipbuilding yards. Wines, tobacco, matches and camphor, which had been a Government monopoly under the Japanese, were to remain a Taiwan Government monopoly in order to produce revenue. The Taiwan Provincial Government, acting through the Taiwan Industrial Enterprise Company, had the largest share in the ownership of, and handled the products of, coal mines, ironworks, textile factories, glass, chemical, brick and printing works. In fact, it appeared that, through the agency or another, the Taiwan Provincial Government was prepared not only to own and operate capital equipment for industrial production, but also to trade in almost any class of goods. It was still the intention that some enterprises should be sold or leased to private operators, or that the original Japanese shares should be sold to private owners, but there did not seem at the time of our visit to be any movement in that direction, nor did there seem to be any way to abolish the virtual trading monopoly, which operated to the disadvantage and dissatisfaction of the Taiwanese.*



## TRADE RESTRICTIONS IN CHINA

*In the report of the U.K. Trade Mission to China many references to the difficulties confronting British business in and with China are found. Following are a few extracts from the chapter dealing with commercial conditions.*

\* \* \* \*

### NATIONALISM AND ANTI-FOREIGN FEELING

There undoubtedly is a certain amount of anti-foreign feeling latent in the country, and although it can at any time be stirred into action for political or pecuniary purposes, it is not normally expressed. Much is heard of the sinister intention of the Chinese Government, which is often credited with a desire gradually to squeeze all foreigners out of all business in China. It is true that there often appears to be justification for these fears. The accusation of "co-operation with foreign capitalists" can be made a political weapon. But the speed of the development of China upon which her Government is bent is dependent to a great extent upon the degree of foreign goodwill and foreign aid that is forthcoming. We do not believe that the wholesale exclusion of foreign interests forms part of the policy of the present Chinese Government, nor that it can form part of the policy of any future Chinese Government within foreseeable time.

### PAYMENT FOR IMPORTS FROM THE UNITED KINGDOM

The United Kingdom must, generally speaking, export on a cash basis to purchase the current imports required to feed her people and to increase her production of goods needed by the world. We found that this situation was fully understood by the Chinese Government, and were assured that China had sufficient reserves of foreign exchange to pay in cash for such imports from the United Kingdom as she was likely to find essential during the next few years. These reserves, whatever their sum may be, will be supplemented by some earnings from current exports, even if they do not amount at first to more than £35 million a year in all (of which say about £2.5 millions might be from the United Kingdom), and by remittances sent home by Chinese living in sterling area countries, which have been estimated at some £3.5 millions a year. In addition, large sterling balances, believed to be valued in December, 1946, at something like £30 million, were privately held in China, though they were not accessible to the Government at that time, and large quantities of U.S. dollar notes, of an estimated value of U.S. \$100 million, were circulating, mostly in Shanghai, and substantial quantities of Hongkong dollar notes, mainly in Canton. China could, therefore, by spending her reserves, con-

tinue to buy British goods on a considerable scale for some years, but the fact remains that for the stability of her economy it would be better if the reserves were conserved. Any rise in Chinese sterling purchases above a low minimum is likely, therefore, to depend on the success of the Chinese Government in stimulating exports and in securing the foreign exchange held on private account both in China by persons resident in China and overseas by Chinese nationals resident in China.

### FOREIGN TRADE RESTRICTIONS BY CHINA

The persistence of the unfavourable foreign trade situation during the latter months of 1946 made it impossible for China to wait for her exports to revive and to raise to the figure necessary to support the volume of imports. The Chinese Government therefore found it necessary to issue new foreign trade Regulations, effective as from November 19th, 1946, which extended the previous licensing system to cover imports of all goods, and at the same time coupled the issue of import licences to the allocation of foreign exchange. The main purpose of the Regulations was thus to control the nature of all imports into China, and bring them into closer relation to the amount of foreign exchange available from all sources. Imports were divided into categories of goods which were to be subject to different treatment. The consequences expected were a modification in relation to each other of the comparative quantities of the various categories of goods imported, and an overall reduction in imports.

It was too soon in the early months of 1947, however, to predict with any certainty what the effect of the Regulations on United Kingdom trade with China would be, beyond the fact that they would mean a curtailment of the already meagre amount of business being done, especially in all forms of luxury and unessential consumer goods. The Regulations came into predominance over all the other formidable difficulties with which the British importer into China had to contend, and if it were not for their temporary nature the outlook would be extremely gloomy. How temporary they may prove to be depends, like so many other things, upon the success of China's efforts to revive her exports. The difficulties of doing that are such that it

would, we think, be unduly optimistic to expect any appreciable improvement for some time.

There was criticism of the Regulations in China on the ground that they would make it easy for the controlling authorities to direct import trade into channels chosen not according to merit, but according to criteria not directly connected with the trade. It would have been possible, for instance, under the Regulations to grant import licences to the highest bidder, or for reasons of nepotism or nationalism. It would have been possible to exclude deals through foreign import houses. We did not come across any evidence that this was being done. It must be said, however, that it is still necessary, perhaps, to reserve judgment on this matter.

The quota scheme which operated for many commodities was full of difficulties. Some licences for quota goods were granted for a portion only of the amount applied for, irrespective of the circumstances of the order placed by the importer, or of the requirements of his buyer, to whom a portion of the goods might be of no use.

### REMITTANCE OF FUNDS OVERSEAS

The regulations which prevented remittances being sent overseas for interest on foreign loans and investments and for that payment of profits and dividends, insurance premiums, provident and pension contributions, must be modified if foreign resources are to continue to make any real contribution to China's rehabilitation and industrial development. The Chinese authorities with whom we discussed this matter said that they were well aware of the difficulties which the exchange regulations caused for foreign traders, and although they could not hold out any hope of a relaxation in the near future, it was emphasised that the regulations were designed to tide China over a difficult period and were not intended to last for ever.

We were informed that the Chinese Government, and in particular the National Resources Commission, would welcome licence agreements with British manufacturers to permit the manufacture in China of products of British licensors, whether the agreements were concluded with Government enterprises or private firms. Negotiations for any such agreements would have to cover the question of the remittance of funds overseas.

## INSURANCE BUSINESS IN CHINA

*Reviewing the conditions prevailing in China as regards life and marine, property and other insurance businesses the report of the U.S. Trade Mission to China cannot but draw a discouraging picture.*

\* \* \* \*

British insurance companies operating through branch offices in China were in difficulties. No insurance firm could operate until it had registered with the Ministry of Finance under the Company Law published on April 12th, 1946. No insurance company other than a life company could register under that law until it had joined the China Insurance Association.



The company's regular representative on that Association had to be a Chinese, although by arrangement a foreigner might attend meetings as his deputy.

An Order issued by the Ministry of Finance dated March 21st, 1946, laid it down that insurance policies issued by foreign insurance companies in China had to be solely in Chinese National Currency; no policies could be issued in foreign currencies. Under the Exchange Control Regulations provision was made for the payment of marine premiums by drafts in foreign currencies, but there was no provision for remitting any part of fire, motor car, accident or other insurance premiums, whether in payment of reinsurance in London or elsewhere or as profits to head offices or for any other purpose.

*The restriction of insurance transactions to Chinese currency acts as a noticeable hindrance to industrialisation and the general transaction of commerce; so long as Chinese currency remains subject to excessive fluctuations almost daily adjustment of innumerable insurance policies is necessary. This applies both to direct policies issued by the insurance offices to the local merchant or private individual in Shanghai and elsewhere, and also to reinsurance policies effected by the insurance companies, with reinsurers abroad, principally in the United Kingdom. The amount of detailed work involved is such as to render a transaction of insurance on these lines extremely difficult, if not impossible. It also inflicts hardship in the event of a loss, because after a loss has occurred no further adjustment of the policy is permissible, and it may be that between the occurrence of the loss and the settlement of a claim, even though this is only a matter of a few days, there is an appreciable loss due to depreciation of local currency. In most cases the local merchant would require to replace lost stocks from abroad, for which purpose he requires policies in foreign currencies.*

On the basis of the regulations there could be no effective insurance business in China by foreign firms, and Chinese firms were also seriously hampered. Most of them had only a small capital (they have since been directed by the Government to increase it to a minimum of CN\$100,000,000 before the end of September, 1947) and were dependent upon the foreign firms for re-insurance facilities, which, under these regulations, could not be given, so that their business had lapsed also.

There was thus no incentive for British firms to issue fire, accident and similar policies as they could not remit any part of the premiums abroad, and insurance on British-owned property in China was being placed in London. Life insurance companies did not wish to issue any new policies. The Chinese Government was thereby losing Business Tax on the premiums and the Revenue stamps on the policies.

## EXCHANGE & FINANCIAL MARKETS

### GOLD TRANSACTIONS

The local market transacted large quantities at record prices. The past week's highest and lowest rates were \$358 and 332½ per tael, corresponding to cross rates of US\$53½ and 51½ per troy oz; most business was done at an equivalent price of US\$52 per oz. The spot sales on the market amounted to 17,115 taels, and on the curb market about 29,000 taels were sold for immediate delivery.

Shanghai quotations for gold opened last week at CN\$13½ million, but towards the end of the week ruling very firm around 15 to 15½ million. The cross rate moved around US\$65 to 72 per oz. South China markets, notably Swatow and Amoy, quoted similar prices (CN\$14 to 16½ million per oz., TT Shanghai CN\$ 930/990).

Canton's unofficial gold market opened the week at HK\$347/353 per tael, somewhat higher than Hong Kong and Macao, reached a low at \$334, but during the latter part of the week ruled very firm around \$355/358.

Demand all over China was strong. Buyers in Shanghai took off the market what was offered. They paid on the average 25 to 30% higher prices than Hongkong. The highest cross rate reported in Shanghai was near US\$80. Macao's gold imports, although large and regular, could not cope with the demand from China.

Large lots of gold in the form of 22 karat sheets were imported into Macao which had to be refined here and in Macao. Goldsmiths, however, are not in a position to refine large quantities so that exports to China were delayed. There were sufficient fine gold imports which were immediately, after unloading in Macao, transported to Canton and other South China cities. A relatively small lot was re-exported from Macao to Rangoon. The current high prices offered in China have discouraged further gold re-exports to Rangoon or India.

### US\$ TRANSACTIONS

Gold importers made repeated inquiries for large amounts of US\$, buying up drafts (which are airmailed to New York) and TT New York but could not find full cover. Requirements of importing banks and brokers were estimated at about ten to twelve millions of US\$, however, immediate needs were believed to be only US\$ four to five million.

Merchant demand was practically absent; the mounting rate for TT New York discouraged potential importers of US goods. Only gold traders can afford to pay such a heavy premium as their business yields extraordinary profits. Towards the end of the week demand of gold importers became insistent and although some holders of free funds in New York started to sell, considering HK\$550 to 560 as sufficiently attractive, demand could not be satisfied.

### Discrimination against Foreign Firms

There appear to be some differences of treatment in the matter of taxation, as between Chinese and foreign firms. All insurance companies operating in China are required to have a minimum capital of CN\$5,000,000. Foreign companies have therefore set aside that amount for their branch offices in China. Chinese firms pay a business tax of 4 percent per annum on that capital. Foreign firms, however, with their head offices abroad, are asked to pay 1½ percent on their premium income, which may amount to CN\$50,000,000 per month. The foreign firms may therefore have to pay say 35 times as much as Chinese firms.

A registration fee calculated at the rate of CN\$10,000 for each CN\$5,000,000 (or part thereof) of capital is payable by insurance companies applying for registration. Foreign companies, however, are required to pay a registration fee based on their full capital, but with a maximum fee payable of CN\$2,000,000. A cash deposit by way of security must also be lodged with the Central Bank of China; this is calculated at the rate of 15 percent on the full capital of the company with a maximum of CN\$2,000,000. Further, a licence fee of CN\$5,000 must be paid to obtain a business permit.

At the official rate of exchange for February, 1947, the deposits and fees together amounted to about £300 per company, and at the open rate to about £90. They are, therefore, not so high as to be likely to deter companies which are disposed to register from so doing.

The previously established life insurance companies, largely British, do not, in general, wish to re-open for new business in present circumstances. So far as they are concerned it would seem best that permission should be accorded by the Ministry of Finance for them to service and gradually to liquidate their existing policies, without having to register so long as they do not undertake new business. As regards other types of business, arrangements should be made with the Chinese authorities to permit remittance of funds to head offices as soon as possible, to permit the issue of policies by foreign firms in foreign currencies, and to clarify the situation as regards taxation. Chinese companies are not in a position to undertake the insurance business which is needed, so that the hampering of the operations of foreign firms is not achieving any useful purpose, even from the restricted point of view of the immediate interest of the Chinese firms, except in so far as the prevention of any business saves foreign exchange.



The week's highest and lowest prices for US\$ were as follows:—notes HK\$550—518; drafts \$552—524; TT New York \$560—530. The cross rate amounted to US\$2.85½, lowest, and US\$3.019, highest, per £.

### SILVER BUSINESS

Arrivals of silver (mostly in bars and ingots) from Canton have been rather small. Some 10,000 ozs per trading day may have come here since Chinese New Year. It seems that holders in Kwangtung are not anxious to sell although prices are high in HK\$. The progressive inflation and fears of unrest spreading in South China have caused much hedging in silver.

Local exporters are not in a hurry to buy in the market at current high prices. Last week dealers quoted \$4 to 4.05 per tael, about \$3.50 per fine ounce (silver dollar coins sold around \$2.60 and 20 cent coins at \$1.95). New York quotations remain unaltered at 74-5/8 US cents per pound and demand is not unusually strong there. The trend, however, is very firm. Local high rates for TT New York (HK\$5.40 to 5.60) have injected an optimistic note into the market although the current high level of the unofficial quotation may not last for very long, connected as it is with, and dependent on, the gold buying volume in Macao.

Profits from silver exports have risen owing to the high TT rate although 25% of the silver export bills have to be sold to Govt. at the official rate. There are a number of local holders of silver who have, during recent weeks, further added to their treasure possession by making judiciously purchases whenever odd lots at lower prices are on offer. Recent imports were largely taken up by local investors and speculators.

### TRANSACTIONS IN GOLD IMPORT LICENCES IN MACAO

As outlined in the leading article the Macao Government has started from the beginning of this year the issuance of licences covering 50,000 ozs each and in the name of one importer only. The first so-called instalment for 1948 was 5 licences of 50,000 ozs each, making a total of 250,000 ozs. One Chinese bank in Macao secured, on account of its very close connections with the issuing authority, the whole lot although there was sufficient competition which also was

anxious to comply with the stipulations, official and otherwise, concerning the procedure of importing gold into Macao.

The respective native bank in Macao dispatched, as usual, most of the licences to its affiliate bank in Hongkong who peddled these licences, from 5,000 ozs upward, among local bullion brokers and dealers, selling them at a "fee" of \$ 20 to 30 per oz (while the official fee in Macao is \$ 2 only) thus making a profit of about US\$ 5 per oz.

The Macao Government obtains officially \$ 2 as import duty per every oz, or \$ 3 per oz for gold brought into Macao in transit. Licences are not transferable. There is a deposit of 10% to be paid in the Macao currency, called patacas, to the Banco Nacional Ultramarino which will be returned after arrival of gold in the Portuguese Colony. Per one licence of 50,000 ozs the deposit required is. Patacas 1.2 million.

Shortly after Chinese New Year new import licences were issued which are currently for sale to the highest bidder at a local native bank. Prospective gold dealers offered \$25 but this amount appears as yet not acceptable. However, a number of local bullion brokers have already obtained considerable lots, from 10,000 to 20,000 ozs each, paying about \$ 27 per oz. as "consideration fee."

In connection with the recent issue of gold import licences the population of Macao experienced great perturbation. Recipients of import licences were frantically searching for patacas in Macao in order to deposit them with the B. N. Ultramarino. However, the patacas were already cornered by several very prominent financiers in the Portuguese Colony and at least one native bank in Hongkong was amply provided with these patacas. One pataca equals HK\$ 1 but there are usually small fluctuations (at most 2-5%) in favour or otherwise of HK\$.

The total note issue of the B. N. Ultramarino is now patacas 28½ million (including subsidiary notes) but of this amount the Government and the bank hold each 6 million so that the total circulation is only some 16 million (some of this money is held also outside Macao by Chinese traders, especially so in towns of Chungshan and in the Kongmoon district).

If there is a demand for 1.2 million patacas the money market is already somewhat upset but this time the operators in Macao, knowing in advance when the issue of new gold licences was to start, were withdrawing as much patacas as came

their way. When naive applicants for gold import licences wanted to buy patacas against HK\$—the acceptance of which the Portuguese Bank refuses—the money changers in Macao demanded heavy premiums (from 10% to 21%).

In this connection the following fact deserves to be known: when there is a periodic premium on patacas in the unofficial money market of Macao the Banco Nacional Ultramarino demands the payment of patacas when requested to make a remittance to Hongkong; but when the unofficial money market quotes HK\$ at a premium the B. N. U. demands the payment of HK\$ when remitting to Hongkong. Similarly, the Portuguese Bank pays out to Macao recipients of Hongkong funds in HK\$ when patacas are unofficially quoted at a premium, and the Portuguese Bank is making payment in patacas to Macao residents when HK\$ is unofficially quoted at a premium.

The current upheaval in the money market of Macao has almost paralysed business there and public anger has reached a high pitch. The background of gold importing into Macao and the personages involved in it are publicly criticised.

### CHINESE MONEY MARKET

The official market rate of China's Foreign Exchange Equalisation Fund Committee was again raised last week (Feb. 20) to CN\$147,000, buying, CN\$151,000, selling, TT New York (CN\$14,000 or over 10% over the previous official rate); and CN\$441,000, buying, CN\$453,000, selling, TT London. The official cross rate in Shanghai to Central Bank of China is accordingly US\$3 per £, a further decline in the cross rate of 5 US cents against the previous week.

The black financial markets in Shanghai, and elsewhere in China, continued with a strong upward movement. US\$ notes in Shanghai opened last week at CN\$185/190,000, ascending during the week and topping 225,000. The difference between the official and black market rate has widened; it amounts now to 50%.

Uneasiness in Shanghai is pronounced, fears of the repercussions of civil war, drawing nearer to Central China are expressed everywhere. The possibility of American relief supplies being granted by the U.S. Govt. has somewhat cheered up the population but no improvement in the over-all economic position is anticipated.

Hongkong notes sold in Shanghai around CN\$40/45,000 but small amounts only were on offer. The

### HONGKONG UNOFFICIAL EXCHANGE RATES (IN HK\$)

		CN\$ (per one million)																	
				Spot		Forward		S'hai Canton		Notes	US\$ (per 100)		Guilder	Baht	Pound	Note			
Feb.	High	per Tael	Low	High	Low	High	Low	T.T.	T.T.		Draft	T.T.					I.C.\$		
16	344		337½	31½	31½	28½	27½	26½	29½	521	524	533	11½	32½	26½	12.8			
17	340½		334½	31½	30¾	27½	27½	26½	29½	521	526	531	11½	32½	26	13			
18	337½		332½	30¾	29¾	27½	25½	26½	28½	519	529	536	11½	31¾	26½	13			
19	344½		335	29	27½	26½	25½	24½	26	526	537	544	11½	31½	26½	13.1			
20	353½		341½	27	25½	26½	22½	24½	26	545	547	557	12	31½	26½	13			
21	358		347½	26½	25½	26	25½	23½	25½	544	549	555	12½	30½	25	12.9			



HK\$/US\$ cross rate in Shanghai has been more favourable for HK\$ than in the Colony. Quotations for HK notes in Canton fluctuated between CN\$31,500 to 41,000; Swatow and Amoy paid towards the end of the week over CN\$42,000.

The local money market sold Chinese bank notes at HK\$31½, highest, and \$25½, lowest, for spot, and 28½—22½, forward; while remittances to Shanghai and Canton dropped to respectively \$23 and 25 (per one million CN\$).

The virtual annihilation of the purchasing value of CN\$ is illustrated by the following comparisons:

August 1937 Feb. 21, 1947

Rice per		
78 kilos	CN\$ 10½	CN\$ 2,200,000
US\$ notes	CN\$ 3.33	CN\$ 225,000

## FINANCIAL CONDITIONS IN BURMA

### THE UNION BANK OF BURMA

During the past year the Government of Burma has taken certain steps to bring its money and banking system into line with political independence. The focal point of these changes was the separation of Burma's money and banking from that of India on April 1, 1947, under the provisions of the India and Burma (Burma Monetary Agreements) (Second Amendment) Order, 1946, which was passed by the British Parliament on August 2, 1946, in accordance with recommendations made by the Governor of Burma.

As of April 1, 1947, therefore, the currency link between Burma and India was severed and the new Burmese currency was linked directly to sterling, instead of indirectly through the Indian rupee. At the same time, the functions of the Reserve Bank of India in Burma were terminated, leaving Burma without a central bank. To take over some of these central banking functions, the Government of Burma established a Central Treasury to accept deposits from other banks, to make payments on behalf of the Government, and to provide facilities for remittances to places outside Rangoon. Exchange-control responsibilities were vested in one of the Executive departments. Control over Burma's currency was vested in a newly established Currency Board sitting in London and consisting of five members, including two Burmans, with a third Burman functioning in Rangoon as executive officer.

One of the final acts of the Reserve Bank of India in Burma was the issuance of 40,000,000 rupees of Treasury bills, which was intended to accomplish the following objectives: Creation of a healthy money market in Burma; utilization of locally available surplus money for Government purposes; retardation of the inflationary trends by providing an investment outlet; and financing the rehabilitation and reconstruction programmes upon which the future of Burma is dependent.

On October 1, 1947, the Government undertook to establish a permanent central bank by providing for what is to be known as the Union Bank of Burma. Operating with an authorized capitalization of 4 crores rupees, of which 2 crores will be supplied by the Government, the Bank has taken over the work of the Central Treasury as well as the exchange-control responsibilities of the Finance and Revenue Department, and undertakes certain forms of commercial banking. The Bank will also undertake the development of indigenous banking in Burma and the supply of credit to Burmese commerce and industry at reasonable rates. Without prejudice to the authority of the Currency Board, the Bank may also act as the Board's agent in Burma and elsewhere. It is apparent, therefore, that the Government intends to continue the Currency Board's responsibility for currency management, although, when the Board was created in late 1946, the Government declared its intention ultimately to vest the functions of the Currency Board in the new central bank which was to be established. The Board was referred to then as "a purely interim measure designed to meet the immediate exigencies attending the introduction of a separate and new Burma currency on April 1, 1947."

According to the enabling legislation, the Bank may not engage in trade or otherwise have a direct interest in any commercial, industrial, or other undertaking, except with regard to such interest as it may acquire in the course of satisfaction of any of its claims, nor may the Bank purchase the shares of any other bank or of any company, or grant loans on the security of such shares. The Bank may not draw or accept bills payable otherwise than on demand.

## SETTLEMENT OF PREWAR DEBIT AND CREDIT BALANCES IN CHINESE DOLLARS

Local Chinese commercial and native banks including the five government institutions (the Bank of China, the Bank of Communications, the Farmers' Bank of China, the Chinese Postal Savings & Remittances Bank and the Central Trust of China) have recently received official circulars from the Chinese Government regarding the settlement of prewar Chinese dollar credits and debits with their clients.

Through the Central Bank of China, the Chinese Government instructed local banks to report within 14 days the amount of their prewar credits and debits still outstanding and to settle these outstanding accounts in accordance with the regulations promulgated by the government in December, 1947. According to the official circular, banks are to pay depositors CN\$3,405.92 per every dollar deposited on or before August 13, 1937 (the outbreak of the Sino-Japanese war); and CN\$1,703.46 per every dollar deposited between Aug. 14, 1937 and Dec. 9, 1941 (the outbreak of the Pacific war). The same scale also applies to persons for repaying loans contracted in Chinese dollars before the war with Chinese banks.

The regulations stipulate that when the amount of any deposit (not the original but the present payable amount) exceeds CN\$5 million, banks are to pay their clients in several installments. Deposits amounting to less than CN\$5 million will be paid immediately upon the presentation of documents. Deposits over CN\$5 million but less than CN\$30 million will be paid in three monthly install-



ments; deposits between CN\$30 million and CN\$100 million in six monthly installments; and those above CN\$100 million in nine monthly installments. In any case, deposits amounting to more than CN\$5 million will be paid at first a sum of CN\$5 million with the balance payable by the bank in several specified installments.

After the promulgation of these regulations by the Chinese Government last December there has been much criticism in China regarding the unfair decision to fix the rate of repayment so low. The Chinese dollar has depreciated very much more than the promulgated rate payable by or to banks. Many cases involving the settlement of prewar debts have been contested and heard in the courts of China, principally in Shanghai and Tientsin, but none of them was ever settled to the satisfaction of both parties.

So far as Hongkong is concerned, the rates established by the Chinese Government are not corresponding to the depreciated CN\$ value. The existing exchange rate at the outbreak of the Sino-Japanese war on Aug. 13, 1937 was HK\$0.95 to CN\$1; and at the outbreak of the Pacific war on Dec. 8, 1941, it was HK\$1 to CN\$6.

According to the present black market rate of exchange (CN\$40,000 to HK\$1), every Chinese dollar deposited on or before Aug. 13, 1937, should value about CN\$38,000 and every Chinese dollar deposited before the outbreak of the Pacific war on Dec. 8, 1941, should value CN\$8,000. In other words, the Chinese Government's regulations setting CN\$3,405.92 for every dollar deposited on or before Aug. 13, 1937, and CN\$1,703.46 for every dollar deposited before Dec. 8, 1941, would return to the depositor only 9.5% and 21.3 percent, respectively, of the prewar Chinese dollar deposits.

#### Hongkong Banks' Quandary

The official ruling from Nanking left most Chinese bankers here puzzled and undecided on what course to take. Hongkong Chinese banks have lost, in many instances, their records during the period of occupation and thus they may not be in a position to trace all their outstanding loans (prior to Dec. 25, 1941) made in CN\$. On the other hand, holders of savings accounts and fixed deposits in CN\$ may also have lost, in many cases, their records and cannot support any claims.

The legal position is also quite confusing; the writ of the Chinese Govt. does not reach abroad, and Hongkong's Chinese bankers — with the exception of the State owned institutions — may not submit to other than British law. In this case they would defy the Chinese Govt's regulations which might bring, at a later date, some unpleasant repercussions.

Many private Chinese banks will try to wriggle out of this predicament if and when too many of their pre-war depositors congregate at the "outpayment" desk. It may be taken for granted that very few loans and

## HONGKONG STOCK & SHARE MARKET

During the week, Feb. 16 to Feb. 20, the market generally was less active. It bore all the symptoms of "marking time" during an accumulating period. The volume of transactions reported was valued at \$5,400,000 for a total of 173,000 shares.

China Light shares held the limelight as the most popular trading counter, and accounted for the larger portion of the total volume.

As far as we were able to gather the opinion of market observers remained unchanged, namely, that the basic trend is upward. The market's performance the past week gave no indications of a change in the trend, nor was its action uncharacteristic of a halting period in a "bull" trend.

#### Dividends

The following declarations were announced during the week:

**H.K. ELECTRICS:** Final of \$1.70 on the old shares, and 85 cts. on the new, both less tax. This makes the total net distribution on the old shares for 1947 \$3.06 per share, thus yielding, at the present market price, 5½% per annum. The new shares will rank equally with the old after payment of this dividend.

**BANK OF EAST ASIA:** A dividend of \$6 and a bonus of \$2 per share. At

overdrafts in CN\$ will be settled while depositors will claim repayment at the officially fixed rates. If a Chinese bank will bring in a suit against a defaulting debtor, requesting settlement of the balance at the Chinese Govt. scale, the local British Courts may not take up such a case.

Most bankers here would prefer amicable settlements between them and their clients, judging every CN\$ case at its own merits. However, the official ruling from Nanking, clearly in favour of depositors (although many will be grumbling), cannot be reversed and those Chinese banks who feel that concerted action will help are looking forward to some decisions to be taken at a forthcoming conference.

It is estimated here that the total amount of prewar balances, credit and debit, exceeded CN\$30 million which would correspond to a repayment value of some 100 billion (or approx. HK\$2½ million at the current exchange rate).

The estimated prewar balances of banks in Canton amount to CN\$70 million but some 20 million could be washed out as depositors have lost their documents, have disappeared or died. To settle the approx. CN\$50 million outstanding debit and credit balances the banks in Canton would make or receive payments of around CN\$150 billion.

the current price the yield is 6.3% per annum.

**GREEN ISLAND CEMENTS:** A net dividend of \$3 per share on the old, and 75 cts. on the new. At the closing price the yield is approximately 8%, and the new shares will rank equally with the old after payment of the dividend.

#### Company Reports:

Annual Reports and Accounts of the following companies have been published:

**HUMPHREYS ESTATE:** Compared with the previous year, Fixed Assets, after deducting war losses, increased by \$141,470, while current Assets showed an excess over Current Liabilities of \$173,489. After various appropriations amounting to \$255,000, including a transfer of \$150,000 to General Reserve, a dividend and bonus of a total of \$2 net per share (400,000) was declared for account of 1947.

**STAR FERRY:** The net profit for 1947 increased by \$631,542. After setting aside \$750,000 for Reconstruction Reserve, a dividend of \$8 per share, less tax, was declared, involving a total net distribution of \$592,000.

**HK HOTELS:** Highlights of the annual report and Accounts for 1947 were: An increase of \$256,188 in net profit after deducting \$323,130 for depreciation. In addition the profit from sale of the Palace Hotel was given as \$3,554,589. It was obvious that the bonus of \$2 per share net, involving \$2,387,734, was allocated from this profit. The dividend of \$1 net per share will amount to \$1,193,867.

#### Price Index.

The Felix Ellis' price index showed a net loss of .86 compared with the close of the previous week. Day-by-day his averages were: Feb. 16, 147.38; Feb. 17, 147.59; Feb. 18, 147.60; Feb. 19, 147.12; and Feb. 20, 147.29. The High and Low for 1947 were 155.82 and 123.88 respectively. The low for 1948 was 145.26 on Jan. 14, while the high was 148.68 on Feb. 12.

#### Business Done:

**BANKS:** HK BANKS were transacted, cum dividend, at 2040, 2045, 2050, and ex dividend at 2010, 2020 and 2030. Bank of EAST ASIA had sales at 130, 132 & 135.

**INSURANCES:** More business was done in this section than for several weeks past. HK FIRES at 325; CANTONS at 395 & 400; UNIONS at 785, 790, 785, 790; UNDERWRITERS at 8.

**SHIPPING:** WATERBOATS old at 51½ & 52½, and the new at 47½ & 48½. After the next dividend payment the new will rank pari passu with the old.



## CHINA'S TRADE FOR THE FIRST ELEVEN MONTHS OF 1947

### Recorded and Unrecorded Imports and Exports

During November China's exports increased considerably over the two preceding months when exports were lowest for the whole past year. Simultaneously imports were the lowest for 1947 further decreasing from previous lows of October and September.

*November Trade of China* (as officially recorded by the Chinese Customs).

Imports: US\$ 26.6 million.

Exports: US\$ 24.7 million.

Trade Deficit: US\$ 1.9 million.

In Chinese dollars the imports amounted to 1,678 billions, and exports amounted to 1,560 billions.

The official exchange rate of Central Bank of China, on which the computation of the Chinese Customs are based, amounted for November to US\$15.84 per one million Chinese dollars (HK\$83.07 per CN\$1 million). Against October the official rate dropped by almost 15% (in Oct. US\$18.44 equalled CN\$1 m.).

**DOCKS & GODOWNS: WHARFS** fully paid new at 165 & 170; HK DOCKS at 34, 32½ & 33. SHAI DOCKS at 23; PROVIDENTS at 25½, 25½, 25½, 26, 25½, 26, 26½, 26, 25½.

**HOTELS & LANDS: HK HOTELS** at 21½, 21¼, 21½, 21¼, 21¼; HK LAND old at 89, 90, 89½, 90, new at 86 & 87; SHAI LANDS at 5½, 5.90, 6, 6.10, 6, 6.10, 6.15, 6¼; CHINESE ESTATE at 190.

**MINING: RAUBS** at 6¼.

**UTILITIES: HK TRAMS** at 24½, 24½, 24, 24½, 24, 24½; **PEAK TRAMS** at 20 & 21; **YAUMATI FERRY** at 44, 43½, 44, 44½; **STAR FERRY** at 139; **CHINA LIGHT** old at 23½, 23, 22¾, 22.90, 23, 23½, 23¾, 24, 23¾, 23.80, 23¾, 23¾, 23¾, new at 17½, 19, 19.10, 19, 19.10, 19¼, 19; **ELECTRIC** old at 56½, 56, 55¾, 56, 55, 54½, and new at 54, 53½, 54, 53¾, 53, 52½; **TELEPHONE** old at 44½, 44, 44¾, 44½, 44¾, 45, new at 42.

**INDUSTRIALS: CEMENTS** old at 37½, 37¼, 37½, 38, 38¾, 38½, 38¾, 38½, and new at 34, 35½ & 35¼; **ROPES** at 23, 23½, 23¾, 23½ & 23¾; **DAIRY FARM** x rt. at 68, 67½ and **RIGHTS** at 44, 43½ & 44; **WATSON** ex all at 52, 51½, 53¾, 53, 53¾, 53½, 53, and **RIGHTS** at 28, 28¼, 27, 29, 30, 30¾ & 30.

**STORES: China EMPORIUM** at 13¾; **SUN** at 5½; **WING ON** at 140; **KWONG SANG HONG** at 205.

Total imports of China for January to November amounted to a value of US\$454.4 million, total exports US\$201.6 million, and the unfavourable balance of trade aggregated US\$252.8 million.

Following is a table of China's trade results for the first eleven months of 1947, showing the highest and lowest trading figures for the period:—(in millions of US\$):—

Imports		Exports		Trade Deficit	
US\$	Month	US\$	Month	US\$	Month
59.1	July	34	May	39.7	July
50.4	Aug.	25.7	Aug.	30.4	Jan.
48.6	June	24.7	Nov.	27.5	Sept.
44.7	Jan.	21.8	June	26.8	Feb.
43	Feb.	19.4	July	25.4	Apr.
42.7	May	17.2	Apr.	24.7	Aug.
42.6	Apr.	16.2	Feb.	23.4	Mar.
35.2	Mar.	14.3	Jan.	22.5	Oct.
34.3	Sept.	11.8	Mar.	21.8	June
32.2	Oct.	9.7	Oct.	8.7	May
26.6	Nov.	6.8	Sept.	1.9	Nov.
454.4		201.6		252.8	

The trade of China for January to November in terms of Chinese dollars—which billions of printing press money cannot be compared as exchange computation rates were altered month by month—amounted to CN\$8,898 billions for imports and CN\$4,250 billions for exports. In November imports were valued CN\$1,678 and exports CN\$1,560 billions.

In our issue of January 28, pp. 81/2, the trade for the first ten months was reviewed.

#### High November Exports

The results achieved in November were most favourable from a point of view of balancing imports and exports, however, they were only accidental owing to an expansion in exports (the third highest for the eleven months) which is seasonal and otherwise the consequence of shipments of accumulated stocks. Also the further contraction of imports, as far as officially recorded, to the lowest monthly figure for the eleven months cannot be regarded as a normal development; unrecorded imports were reported as heavy for November.

The trade controlling Export Import Board of China has interpreted the November trade figures as proving the correctness of their policies and trade restrictions. The necessity for decreasing imports to a figure approximating Chinese exports has become obvious on account of the dwindling of foreign exchange resources of the Chinese Govt. It is, however, not realistic to appraise the trading position of China in the light of the officially recorded figures of one month only.

The very considerable increase in exports during November was largely the result of heavy shipments abroad made by Chinese Govt. organisations such as China Vegetable Oil Corp., Central Trust of China, National Resources Commission, China Textile Industries Inc. It was these State trading corporations which had previously accumulated large stocks by purchasing native produce in the interior or manufacturing goods in Govt. owned mills. As far as private exporters' business was concerned there was no increase in exports noticeable; on the contrary, many merchants reported less turnover and smaller quantities of export cargo available.

The principal export commodities in November—largely shipped abroad by State owned corporations—were the following:

Bristles 745 tons, Tung oil 10,000 tons, Raw silk (white, steam fil.) 59 tons. These quantities were extraordinary; the November exports were more than 100% over monthly average for the period Jan./Oct. 1947.

More conspicuous even was the total of wolfram ore exports for November of 1,757 tons; during the first ten months only 3,741 tons were exported. Antimony regulus exports in Nov. totalled 1,462 tons (for Jan./Oct. 6,313 tons).

However, it was the export of cotton yarn and piece goods which boosted November shipments to the relatively high figure of US\$ 27½ million. Of the piece goods exports the most outstanding item were cotton shirtings and sheetings with 2,687 tons (against only 1,000 tons for the first ten months of 1947). Most of these shipments were made to Africa where buyers remain anxious to obtain further supplies from cheap sources. Since private manufacturers cannot compete with the State owned China Textile Industries—which do accept orders, for the sake of acquiring foreign exchange for the Nanking Treasury, at prices considerably lower than offered by private business—most cotton piece goods exports were effected by the Chinese Govt.

#### Govt. Exchange Allocations

The Chinese Govt., as from mid-February 1947, assumed the sole responsibility of financing imports into China, the necessary funds coming from the compulsory surrender by exporters of their bills to Central Bank of China, inward remittances (mostly from overseas Chinese, foreign missionaries, diplomatic sources, etc.), U.S. Forces' expenditure in China, Chinese official exchange resources held in the U.S.



For the year 1947 the total official exchange allocation to importers amounted to US\$ 427 million (according to President Chiang Kai-shek himself); 200 million to be allocated for the first half year, and 227 m. for the second half year. Allocations were made under two heads: capital goods (Schedule I) and consumers' goods, raw materials and industrial supplies (Schedule II). Schedule II allocations were announced for every three months, beginning February, viz.:—

Feb.-April 1947 US\$ 99,675,000;  
May-July US\$ 72,610,000; Aug.-Oct.  
US\$ 67,873,000; Nov. 1947-Jan. 1948  
US\$ 53,393,000; making a total for 12  
months of US\$ 293,551,000.

Capital goods exchange allocations were not announced. It appears that the total for 12 months was about US\$ 134 million (i.e. US\$ 427 m. less US\$ 293 m. for Schedule II goods).

Total imports for 1947—as far as officially recorded—will be likely in excess of US\$ 480 m. (Jan. to Nov. US\$ 454½ m.). It appears that, on the whole, the import control of Nanking succeeded to keep imports within the planned limit. Although recorded imports were valued higher than the Govt. exchange allocation total, this fact can be explained by the late start of all-embracing trade control, as from last Feb. 17th only, and a heavy volume of goods on order or en route when the import restrictions were coming into force.

#### Smuggling

No reliable figures can be compiled for estimating the volume of non-recorded imports and exports of China. It is safe, however, to put so-called smuggled imports for the past year at a value higher than US\$ 100 m. while exports which left China without the exporters' bills having been surrendered to Central Bank of China (through appointed banks) may have aggregated US\$ 50 m. These figures do not include estimates for treasure movements (i.e. gold imports, silver exports).

The Chinese Customs have uncovered during last year 23,000 cases of smuggling and seized much cargo in many Chinese ports, Shanghai ranging most prominent with over 40% of the value of Customs confiscated merchandise. The total value for 1947 of seized commercial cargo was CN\$ 317 billion, the by far largest part coming from confiscations of goods which owners attempted to smuggle into China; seizures of export cargo which failed to produce documents showing that exchange proceeds were sold to Govt. were small.

The equivalent value of seized goods was about US\$ 15 million (computing the 317 billion at monthly average rates of exchange into US\$). This figure gives a good indication of the great amount of smuggling conducted in China. Seizures were about 3% of

## COMMERCIAL MARKET REPORTS

### Hongkong Trade with Japan

Heavy imports of Japanese goods into Hongkong, both for local consumption and for re-export, have kept arriving here during the last 3-4 months. The level of business is now up to, if not already exceeding, the pre-war average. Hongkong traders have, therefore, every reason to be satisfied with the results so far achieved.

At present imports from Japan amounting to a value of over \$ 3 million are expected to arrive here within the next 3-4 weeks. Meanwhile, a temporary suspension of exchange allocations by Hongkong Govt. (S. T. & I. Dept.) in respect of imports from Japan was necessary in view of the almost complete exhaustion of available funds in Tokyo. These resources, however, have been filled up to some extent and are expected to be substantially increased very shortly so that Dept. S. T. & I. may as from beginning of March resume the issuance of exchange allocations to local importers of Japanese commodities.

### PROHIBITED EXPORTS, HONGKONG

With effect from Feb. 9 the exportation of all unmanufactured and semi-manufactured iron and steel is prohibited. Previously only galvanised iron pipes, mild steel bars, channels, tees, joists, window sections, sheet and plate were on the prohibited export list as far as building construction materials of iron and steel were concerned. The very large requirements by the local building industry have necessitated a complete export embargo and iron and steel.

### CHINESE IMPORT QUOTAS

The Export Import Board of China has fixed the foreign exchange allocation for imports of consumer goods and industrial raw materials (Schedule II) into China at US\$74,720,000 for the six month period of February to July 1948.

total imports or 2% of imports and exports of 1947; while estimated unrecorded imports amounted to 20-25% of total imports, and unrecorded exports amounted to about 20% of total exports.

China's total (recorded and unrecorded) imports for 1947 may have amounted to about US\$ 600 million, and total (recorded and unrecorded) exports to about US\$ 250 million, resulting in an actual unfavourable balance of trade of about US\$ 350 million. (China's treasure trade—recorded and unrecorded—is excluded from the above estimates).

This over-all quota is considered by Chinese and foreign importers in China as utterly inadequate. Protests have been lodged but a revision of the figure cannot be expected. For the preceding 12 months the total allocation for consumer goods and industrial raw materials amounted to US\$293½ million; against this figure the current 1948 allocation means a decrease of 50% (six months average 1947 was US\$ 146.7 million).

### HONGKONG EXPORTS TO NEW YORK

Continued shipments of cassia lignea and cassia oil to New York have not tended to reduce demand there. Inquiry remains keen for this and the other principal essential oil of China, aniseed oil.

Tung oil exports, mostly effected by CVOC, the semi-State owned Chinese vegetable oil corporation, have recently fallen off somewhat. The low price level ruling in this market in New York proves unattractive for local exporters.

Some wolfram ore shipments to the U.S., not made by the Chinese monopoly, N.R.C., but by several local well-established trading firms, are regularly dispatched.

Pepper, black and white, remains a good local export business. Almost every ship leaving here for the U.S. loads pepper.

### TUNG OIL CONSUMPTION

The average consumption of tung oil in the U.S. is now around 9 million pounds per month (Oct. consumption 9.5 m., Nov., consumption 8.8 m. lbs.). On this basis exports from here and Shanghai should approximate 65/70,000 piculs per month.

Stocks now held in the U.S. are estimated at over 32 million lbs. (last Oct. 31.9 m., Nov. 33 m. lbs.) (Stocks in factories and warehouses). Price trend is easy with only 26 US cents, on the average, paid for oil in casks, while about 27 cents are offered for smaller quantities, in drums.

European demand for tung oil is sluggish. Little interest is shown by most Continental consumers. London, however, continues to buy although limited lots. The cif London price is around £190 per ton at which Hong Kong has been able to make available deliveries to U.K. Shanghai exporters, official and private, are considerably dearer than Hongkong, demanding about 10% more for cif London shipments.



## AGAR-AGAR

The Japanese government's Board of Trade has reported that the total available for export from November 19, 1947, until May, 1948, will be 750,000 pounds—being all from current stocks. The balance of the Japanese supply will be reserved for home requirements in Japan.

The following table shows quantities available for shipment and prices on contracts involving amounts between 10,000 and 50,000 pounds. Contracts involving 50,000 pounds or more are reported finalized at 5 per cent less than the prices listed.

	lbs. Nov.-Jan.	lbs. Feb.-Mar.	US\$ per lb.
Kobe No. 1 (1947)	100,000	200,000	1.85
No. 1 (1946)	100,000	.....	1.75
No. 2 (1947)	.....	100,000	1.65
No. 2 (1946)	150,000	.....	1.55

Yokohama			
No. 1 (1947)	50,000	50,000	1.75

## SMUGGLING

Chinese traders report that recently there was an increase in smuggling of goods along the coast via Hoi-fung while transportation on the railway of illicit cargo has declined. The following land smuggling routes have become very prominent of late: via Shayuchung, Lunghong, Wang-kong, Yimtien and Muishan. Principal illicit imports into China comprised: cotton yarn, raw cotton, piece goods, dyestuffs, chemicals, medicines, kerosene, hardware, motor parts, tyres, tobacco, canned foodstuffs. Principal illicit exports from China comprised: wolfram ore, tung oil, bristles, mercury, tin, rice, livestock.

Guerillas in the vicinity of Hong-kong, especially in the East River area, have increased in numbers and their activities are expanding. In order to raise revenue most guerillas engage in promotion of smuggling. Traders and transportation firms pay protection fees which are usually much lower than those demanded by Chinese army personnel (on active duty or disbanded). A guerilla aligned semi-military organisation in Hongkong's hinterland is the "Tung-Po-Wai People's Protection and Village Selfdefence Corps." They issue protection passes in the rather extended area under their control and guarantee safe conduct of imports and exports.

Wolfram ore smuggling continues although the volume is small. Only higher prices paid out to miners and traders in this ore by the State monopoly, National Resources Commission, could reduce smuggling. As long as the State monopoly offers an unrealistic price smuggling will continue. Protection and promotion of unrecorded wolfram ore exports are accorded to traders by guerillas.

## MINERALS AND ORES

Business in Yunnan tin, wolfram ore and antimony (ore and regulus) has been negligible during the last week. No market prices were established. Buyers of wolfram ore—a few native dealers and 2 or 3 exporters—do not divulge current prices paid.

The National Resources Commission office in Hongkong is not doing business on own account but effects delivery of such quantities of minerals and ores as directed by the head office. Commercial inquiries made at the local N.R.C. do not result in any conclusion of contracts. N.R.C. is shipping frequently wolfram ore, antimony regulus and tin abroad.

The local tin market is at present irregular with no reliable prices quoted. The official buying price in New York remains at 96 US cents per lb. delivered New York. Local dealers attempt to get here from 90 to 93 US cents or the equivalent in HK\$. Exporters have to sell 25% of tin export bills to Govt. at the official rate, 75% are left at their disposal. Some market offers of HK\$600, more or less, per picul (133.33 lbs.) did not find much response by exporters.

The market price here fluctuates in line with the movements of the unofficial US\$ (TT New York) rate. The current unusually high US\$ quotation encourages exports, on the other hand, native dealers hold back with their cargo expecting an even higher rate. The nominal quotation for one picul of tin (at the official US\$ rate) is around HK\$480. Fair tin arrivals were recorded here by native dealers who prefer, however, to keep certain stocks as a hedge against depreciation of HK\$. Furthermore, there is a feeling, supported by rumours from Singapore, that a higher international price for tin may sometime this Spring be announced in London.

## Bolivian Tin

The base price for tin purchased from Bolivian producers by the Reconstruction Finance Corporation during 1948-49 will be 90 cents per pound of payable tin in concentrates on board vessels at South American ports. The price is 14 cent a pound higher than in 1947. In a new agreement between the RFC and Bolivian tin producers, the price will vary directly with deviations in the value of grade A tin at New York.

Great Britain gets about half of the Bolivian tin production, 40,000 tons, and the United States and Argentina the rest. The agreement covers total production, during the two-year period, of the Bolivian producers who participated in the 1946-47 contracts, with the exception of not more than 8,000 long tons, which may be used to fulfill outstanding commitments covered by the Argentine-Bolivian trade agreement.

## INDIAN PEPPER CROPS AND HONGKONG'S RE-EXPORTS

The Indian pepper crop during the 1946-47 season (December to February or March) is estimated at 20,000 long tons, as compared with 19,000 tons in 1945-46. The Alleppey area accounts for about 10,000 tons; the Tellicherry area, 6,600 tons; and the rest of India, 3,400 tons.

Preliminary estimates place the 1947-48 crop at about the same level as the 1946-47 crop, or 20,000 tons.

On November 1, 1947, South Indian pepper stocks on the coast and in the interior are estimated at 4,250 tons in the Alleppey area and 5,500 tons in the Tellicherry area.

Shipments of pepper from South Indian ports in the third quarter of 1947 amounted to 30,386 hundredweight (1 hundredweight=112 pounds) as against 21,792 hundredweights in the corresponding period of 1946.

The Government of India decided to remove the control over the export of pepper, effective October 18, 1947.

As anticipated, after the Government of India announced the decontrol of pepper exports, prices advanced from about 104 rupees to 119 rupees per hundredweight, f.o.b. Cochin. The immediate effect on the market was heavy speculative buying, but the future trend of the market governed by the natural laws of supply and demand would doubtless be responsive to normal influences and general world conditions. Note is taken of the reappearance of Singapore pepper in world markets. When Singapore was under enemy control Cochin became practically the sole pepper supplier to the world, and Cochin merchants, enjoyed a virtual monopoly.

Hongkong has developed during last year a considerable entrepot business in black and white pepper. Large shipments were made from the Colony to the U.S. Export bills have, however, to be sold at the official rate to Govt. Exchange Control (through the authorised commercial banks).

## NATIVE PRODUCE MARKETS

Sales in the native dealers' market of vegetable oils were slack although the daily increasing prices of US\$ drafts and TT New York stimulated interest of buyers. Tung oil sold, ex godown, \$ 136—142 per picul (excluding drums); Rapeseed oil around \$ 148; Teased oil up to \$ 170; Coconut oil between \$ 140 to 144; Sesame seed oil \$ 250; Peanut oil from \$ 175 to 190. The high market prices of especially teased and coconut oil did not discourage inquiry; on the contrary, foreign demand remains very brisk for edible and other vegetable oils.

Indications of prices by dealers in Chinese minerals and ores were only available; wolfram ore (65%) \$ 390; Antimony \$ 200; and Tin \$ 510 per picul.



(B) All kinds of equipment are needed by the Chinese National Railways for repairs, replacements and extensions. Chinese output is limited. Supply from Britain is needed of: Brakes and signals; Bridge steelwork; Locomotives; Passenger coaches; Points and crossings; Rails, sleepers, fish-plates, tieplates, dogspikes, etc.; Steel tyres; Telephone and telegraph apparatus; Wagons; Wheels and axles; Workshop plant.

(C) There is a big demand for vehicles and goods designed for road conditions in China—simple and strong—including: Bicycles; Motor vehicles; Motor accessories and spare parts; Road-making plant.

(D) The Chinese Government is particularly interested in: Twin-engined and Four-engined aircraft (Seating capacity 21 to 24 passengers) which must be economical and serviceable types, particularly for short distances.

## 2. MACHINERY, MACHINE TOOLS AND CAPITAL EQUIPMENT.

There is great need in China of machinery and capital equipment, both for Government and private account. The effect of the Revised Temporary Foreign Trade Regulations issued on November 18th, 1946, and of the Import Tariff is to give preference to imports of this class of goods.

Examples of goods particularly required are:—Agricultural machinery (especially: Small (6-8 h.p.) all-purpose tractors and cultivators; Small farm irrigation pumps); Air compressors; Boilers and boiler house equipment; Boiler tubes; Cement-making machinery; Coal face machinery; Crane; Crawler tractors and equipment; Crushing and screening plant; Electric lamp-making machinery; Excavating machinery; Food-processing machinery; Furnace plant; Garage equipment; Gear-cutting machines; Glass-making machinery; Grain-milling machinery; Hosiery machinery; Industrial fans; Industrial tanks; Internal combustion engines; Lens-grinding machinery; Machine tools of many types and accessories; Match-making machinery; Mineral water machinery; Mining machinery; Oil-burning apparatus; Packaging plant; Paint and varnish plant; Paper-making machinery; Petrol pumps; Tableting machinery; Pile drivers; Presses; Printing and bookbinding machinery; Refrigerating plant; Road rollers; Rubber and plastic-making machinery; Sewing machines; Spraying machines, agricultural and horticultural; Spraying machines, paint; Steam engines; Sugar-making machinery; Tea machinery (cutting and rolling machines); Textile machinery; Tobacco and cigarette machinery; Type-setting machines; Vegetable oil producing plant; Water softening plant; Weighing machinery; Welding machinery; Winches; Wood-working machinery; Works' trucks.

## CHINESE NEED FOR SUPPLIES FROM THE UNITED KINGDOM

A tabulation of some of the items for which, according to the U.K. Trade Mission to China, there is likely to be a demand not merely now or during the next few months, but for years to come.

The items in the list which follows have been divided into the following main general categories:—

5. Scientific instruments and industrial scientific apparatus
6. Building equipment
7. Chemicals
8. General merchandise

### 1. TRANSPORT EQUIPMENT.

- (A) Water
- (B) Rail
- (C) Road
- (D) Air

(A) Coastal steamers; Fishing vessels and their gear; River steamers; Small motor launches.

1. Transport equipment
2. Machinery, machine tools and capital equipment
3. Engineering supplies
4. Electrical apparatus



### 3. ENGINEERING SUPPLIES.

Chinese production of engineering supplies is inadequate for the country's requirements, and the need for British supplies includes:—Abrasives; Alloy steel; Aluminium sheet and foil; Ball and roller bearings; Brass and copper sheet, strip, tube, wire and rods; Chain cables; Copper and brass sheet, strip, tube, wire and rods; Conduits, steel; Diamond drills and tools; Engineers' small tools; Expanded metal; Flexible abrasives; Fuel oil burners; Handtools; Industrial transmission belting; Iron and steel finished products; Lamps, miners; Lubricating equipment; Perforated metal; Machine tools and accessories; Plates, steel; Precision chains; Precision steel tubes; Precision springs; Pumps; Refractory materials; Re-rolled steel products; Steel sections, sheets, strip, etc.; Steel shot and grit for fettling; Steel ropes; Tungsten carbide; Tubes, brass and copper; Tubes, precision steel; Tubing, flexible metallic; Valves.

### 4. ELECTRICAL EQUIPMENT.

British electrical and allied equipment has a high reputation in China. There is an urgent demand for all classes of equipment, particularly the following:—

Accumulators; Alternators; Boiler plant and ancillaries; Cables; Electric furnaces; Electro-medical appliances; Fans, domestic and industrial; Generators; Heating, cooking and allied domestic appliances; Insulators and insulating materials; Lighting equipment and fittings; Meters and instruments; Mining electrical equipment; Motors; Oil engines; Portable electric tools; Radio equipment; Rectifiers and reactors; Refrigerators, commercial and domestic; Starting and control gear; Steam engines; Steam turbines, condensers and gears; Switchgear; Telephone and Telegraphic equipment; Transformers; Water turbines; Welding equipment and electrodes; Wires and wiring accessories.

### 5. SCIENTIFIC INSTRUMENTS AND INDUSTRIAL SCIENTIFIC APPARATUS.

There is a large demand for all types of scientific instruments. Within the limit of available foreign exchange, there are required:—

Analytical balances; Dental apparatus and supplies; Laboratory equipment; Measuring instruments; Meters; Microscopes; Navigational instruments; Ophthalmic supplies; Optical glass; Optical instruments; Pyrometers; Spectacle lens blanks; Spectacle frames; Surgical instruments; Surveying instruments; X-Ray apparatus, and other instruments of this class.

### 6. BUILDING MATERIALS AND EQUIPMENT.

The Chinese building industry is in need of materials and equipment from Britain, including:—

Air conditioning plant; Asbestos cement products; Building hardware (locks, door handles, etc.); Cement and cement products; Central heating apparatus; Constructional steelwork; Escalators and lifts; Metal windows; Paint; Roller shutters; Roofing felt; Sanitary ware; Safes; Tiles, glazed; Wall tiles.

### 7. CHEMICALS.

- (A) Agricultural needs
- (B) Industrial needs
- (C) Consumer needs

(A) Chinese production of chemical fertilisers is much less than the demand. There is need for:—

Sulphate of ammonia; Other nitrogen fertilisers; Phosphates; Potash fertilisers; and also for: Chemical insecticides.

(B) There is no substantial production of industrial chemicals in China. The Chinese textile industry requires:—Anthracene; Dyestuffs generally.

There is also an industrial need of:—Acids (including cresylic acid); Alkalies (including caustic soda); Coal tar products; Naphthalene; Pitch; Synthetic essential oils.

(C) Consumer needs of chemical and pharmaceutical products include:—

Artists' colours; Cod-liver oil; Dentist supplies; Infant foods; Penicillin; Pharmaceutical goods of all descriptions; Proprietary medicines; Saccharin; Toilet preparations; Vitamin preparations.

### 8. GENERAL MERCHANDISE.

- (A) Textiles
- (B) Metal goods
- (C) Other consumer goods

(A) There is a large demand in China for all textile piece goods. Chinese production reduces the demand for certain classes of imports from Britain, but there is a requirement of:—

Rayon; Wool; Linen; Some cotton piece goods; Jute and gunny sacks.

(B) Chinese production of manufactured metal goods does not satisfy demand. There is need of British supplies of:—

Collapsible tubes; Cutlery; Goldsmiths' and silversmiths' ware; Nails; Needles; Razor blades; Tinplate; Wire and wire products; Zip fasteners; and other goods of this class.

(C) There is a very large demand in China for all kinds of consumer goods, subject to the availability of foreign exchange to pay for them. In particular:—

Alarm clocks; Bicycles; Cinema equipment; Clocks; Domestic oil-burning stoves; Domestic refrigerators; Flavours; Flints; Fountain pens; Gin; Gramophones; Holloware; Jams and marmalades; Kitchen hardware; Leather cloth; Leather goods; Lighters, mechanical; Office appliances and equipment; Photographic goods; Pianos; Plate glass; Printing and books; Rubber surgical goods; Rubber products; Sewing machines; Sports goods; Still cameras; Toilet preparations; Typewriters; Vacuum cleaners; Whisky.

\* \* \* \*

## Reconstruction of Canton's Export Import Board

Following repeated criticisms during the past two months by practically all public commercial bodies in South China against the trade restriction system and the ineffective and "red tape" practices by the controlling personnel, Mr. Chu Hwei-yat, Director of the South China Regional Committee of the Export Import Board, officially tendered his resignation to the Central Authorities in Nanking last week. While his resignation is still being considered and not yet accepted by the Nanking Government, Mr. Chu has, however, not been attending his office since he made known his wish to resign on Feb. 17. In case his resignation will be accepted, it is likely that Mr. Dien Ting-on, the present Deputy Director, will be appointed to succeed Mr. Chu.

After tendering his resignation, Mr. Chu frankly admitted to newspapermen in Canton that the existing trade control policy has never been, and cannot be, carried out effectively; officials heading the Regional Committee in Canton are confronted with an impossible and most unpopular task.

Commercial circles attach great significance to the resignation of Mr. Chu, who was formerly an army general and was recommended for the post by General Chang Fah-kwei, former Director of the Chiang Kai-shek's Canton Headquarters. Mr. Chu's resignation was caused by the opposition of merchants and bankers to the trade controls and his inability to obey the instructions of the present Governor, Dr. T. V. Soong.

Mr. Dien, who has been an old hand in banking business and one of the close associates of Dr. Soong, will likely be recommended for the post and eventually appointed to succeed Mr. Chu.

Immediately prior to Mr. Chu's resignation, Mr. Tse Wan-lung, Chief of the Import Allocation Department of the Regional Committee, submitted his resignation which was promptly accepted. Mr. Yuen Chia-ling, assistant manager of the Central Bank's Canton office, has since been appointed to succeed Mr. Tse. It may be recalled that the complicated procedures for obtaining import quotas—the responsibility of the Import Allocation Department—have been most severely attacked and criticised by Chinese merchants and factory owners.



## Importation of Raw Materials into China for Use in the Manufacture of Export Goods

With effect from February 6, the Chinese Export-Import Board, Shanghai, has opened the way for such imports which are essential in the manufacture of Chinese export goods. The new Import Regulations have been welcomed by all traders and an increase in the importation of industrial raw materials and in the exportation of Chinese manufactured goods may be expected for this year.

The new regulations are called "REGULATIONS FOR THE IMPORTATION OF RAW MATERIALS FOR THE MANUFACTURE OF EXPORT GOODS". The importation of such raw materials used wholly or partly in the manufacture of Chinese export commodities are governed by the following rules:—

(1) Class A goods, being such materials as are specifically imported for manufacture into goods exclusively for export.

(2) Class B goods, being other materials used in the manufacture of goods partly for domestic consumption and partly for export.

The value of goods imported under Class A shall not exceed 40% of the value of the goods manufactured from them and subsequently re-exported. Special consideration will be given to those manufactured goods which have had a long standing in the export trade and, being worthy of encouragement, have been specifically approved by the Export-Import Board.

The list of 427 firms and 509 factories accepted as importers under quotas has been much criticised by merchants since it was made known on Feb. 7. In one instance, altogether 100 odd firms were accepted by the Import Allocation Department as importers of foreign paper, whereas the Canton Foreign Paper Merchants Guild pointed out that there are only 28 members of their guild. In other words, apart from the 28, the remaining 70 odd firms accepted as "paper imports" were imposters who must have paid big bribes. At a recent meeting in Canton, the guild protested and accused these 70 odd firms as well as the officials who so flagrantly grafted.

Many other so-called importers, who were accepted by the Import Allocation Department, actually have no offices in Canton or anywhere in South China but their firms' name is registered with the Department. In recent weeks, import quota certificates issued in Canton have been offered in Hongkong at "market" prices. A flourishing traffic was conducted. Canton officials must have reaped large "profits" from these practices. The legitimate traders were dumbfounded about the brazen behaviour of grafters.

The ratio in value of goods manufactured from goods imported under Class B and subsequently re-exported to the total original importation shall be determined by the Export Development Department according to the nature and the special requirements of such manufactures and shall be subject to revision as occasion may require PROVIDED THAT the amount of foreign exchange realized from the portion exported shall in no circumstances be less than the amount of foreign exchange provided for the total importation.

The foreign exchange required in payment of Raw Materials imported under these Regulations shall be granted OUTSIDE OF the usual import quotas.

The export of goods manufactured out of Raw Materials imported under these Regulations must be completed within six months from the date of the original importation.

Applicants must be firms properly registered in accordance with Government regulations. They shall also register with the Export Development Department of the Export-Import Board.

### SPECIAL IMPORT LICENCES

A special form of Import License will be issued for importations under these regulations.

The applicant shall apply for the license through an Appointed Bank. The application shall be subject to the approval of the Appointed Bank, which shall transmit the application, if approved, to the Export Development Department. Applications approved by the Export Development Department will be transmitted to the Import Quota Allocation Department or to the Non-Quota Import Examination Department, according to the tariff number of the commodity, for record and confirmation and subsequent transmission to the Import Licensing Department for the issue of import licenses.

The Import License shall state, in addition to the customary particulars:—

- (a) The quantity and estimated value of the manufactured goods which will eventually be made for export from the materials so imported.
- (b) The latest date by which export of the manufactured goods will be completed.

An applicant, who is not also the manufacturer, shall be permitted to import goods under these regulations only on behalf of a manufacturer to whom the relative goods must previously have been sold. The manufacturer shall in such event countersign the applicant's application for import license.

The applicant of goods imported under these regulations shall be responsible for fulfilment of the obligation to export entered into under them. Subject thereto he shall be permitted

to effect re-export through another party, who may be a manufacturer or an exporter, but in such event the original applicant shall be required to countersign the relative export-certificate.

A duplicate of the Import License shall be retained by the Export Development Department. The applicant shall retain the original Import License until re-export has been completed, when he shall surrender it to the Export Development Department through the original Appointed Bank.

The conditions governing the exportation of goods manufactured from imported materials for re-export shall be subject to the strict scrutiny of the Export Development Department.

### SETTLEMENT OF EXCHANGE

#### Raw Materials Imported on Consignment

(1) Materials in Class A may be imported on consignment (i.e. free of payment and therefore free of exchange) from a buyer abroad, to whom the manufactured goods will eventually be shipped.

(2) The party importing materials on such terms into China shall on importation produce a statement from the consignor abroad certifying that the goods are the property of the consignor and that no payment has been or will be received by the consignor directly or indirectly from the consignee in China in respect of either the materials or of shipping or other expenses incurred as a result of their shipment to China. The consignee shall deposit with the Export Development Department an undertaking in writing that he will not sell that materials in China and that he will re-export them in manufactured form within 6 months from the date of importation and that he will sell to an appointed bank foreign exchange to cover manufacturing and all other charges and profit earned.

#### Raw Materials Imported Against Payment

Import Licenses will be issued and foreign exchange sold in respect of raw materials authorized for importation against the simultaneous sale of foreign exchange against the export of goods manufactured from such raw materials, provided that the amount of such sale shall not be less than the corresponding purchase of foreign exchange. These and subsequent sales of foreign exchange, shall be made to the appointed bank from which the relative purchase of foreign exchange is made.

In the event of the aggregate sales of exchange amounting to less than the sum indicated in the original import application as being the anticipated realizable value of the exported goods, the exporter when applying for certification of Export-Certificate shall produce evidence to justify the difference between his original estimate and his



## PROSPECTS OF LOCAL BUSINESSMEN

BY A CHINESE TRADER\*

After last year's at times very stormy and usually haphazard trading when many opportunist merchants reaped big profits while others suffered minor losses, the outlook for the year 1948 brings mixed feelings to the local commercial community. Those merchants who are of old standing well experienced and with sound financial backing feel that their particular lines of business will gradually become steady and normal while those who were merely opportunists and disposing of scanty financial reserves only may be being weeded out.

Since the end of war thousands of new Chinese and European merchants and financiers entered into business and established trading firms in the Colony despite the fact that many of them had never been in business before. The clamour of the general public for new clothing, houses, equipment and daily necessities, after several years of material starvation during the war period, presented extraordinary opportunities for inexperienced importers to sell anything made abroad to the Colony thus making unproportionately large profits throughout 1946. So long as they could make big profits on certain imported merchandise, disregarding completely the real extent of the buying public's demand for such articles, these opportunist merchants ordered and brought into the Colony large shipments, one after another. Eventually the Colony became overstocked, while prices in export countries dropped and the markets in China were increasingly blocked by Chinese trade regulations. The inexperienced importers had to reduce their wholesale prices and finally were forced to sell below cost price. This situation caused majority of new and inexperienced importers to suffer heavily during the latter part of 1947 and some of them had to close their offices, losing their meagre substance.

actual sales. The Export Development Department, if not satisfied with the evidence, may insist on sales of exchange up to the original estimated amount. In case the department and the exporter fail to agree upon a valuation the question shall be referred to the Export Valuation Committee for final decision.

### Guarantees

The grant of the facilities offered under these regulations shall be subject to a recommendation by the applicant's banker and the provision by the applicant of guarantees satisfactory to the Export-Import Board for the due fulfilment of all obligations, to be forwarded to the Export Development Department together with his application.

### The Next Six Months

From businessmen's point of view, the general trade in the next six months will gradually become normal and healthier with experienced merchants knowing where and how they will stand. Long established merchant houses, who possess the necessary knowledge of world supply sources, demand position and price movements of their particular lines, are quietly confident in the future being satisfied to trade on business-like, legitimate margins of profits. However, those inexperienced merchants who were used to making quick and big profits during the years after the war, 1948 will be a tough and difficult year to survive. These people never specialised, lacked in commercial education, took on anything which promised profits, intending—in many cases—to quit after the heyday was gone.

### Trade With China

Since Hongkong is an entrepot serving chiefly China, the larger or smaller volume of trade between here and China will depend on the extent of old or new trade controls enforced by the Chinese Government. It is certain, however, that the recorded trade volume with China cannot improve and perhaps will be further reduced this year. So long as the Chinese authorities continue to embargo certain exports and limit imports no hope for better business can be entertained. In fact, it appears to most Chinese merchants that the strict regime of trade and exchange control is bound to be further tightened. Imports into China, as far as to be shipped through legal channels, are expected to decline ever more. A pessimistic appraisal of the trading position of China in 1948 is generally heard.

### Smuggling Trade

Local merchants are, however, of the opinion that so long as graft and corruption exists in official circles in China, trading between here and China through underground channels will continue to present itself as the only chance for local traders. Large scale smuggling in the past to and from China has been carried out not by ordinary merchants but by influential individuals and groups (government officials and military cliques). Since China officially tightens her anti-smuggling measures, large smuggling activities by these groups will continue to be the order of the day in the future.

Therefore, the prospects of doing more business with China by ordinary merchants here are doomed, though underground trading by the "know how" groups will continue to be flourishing and profitable. The recent announce-

ment by Premier Chang Chun that China will tighten her trade controls in the next six months augurs well for the interests of the powerful smuggling organisations all over China.

To improve trade between here and China it is imperative that the Chinese Government relax the existing trade controls by granting equal treatment to all merchants, by increasing import quotas and by permitting the importation of essential materials financed by private foreign currency holdings as well as by modifying the surrender requirement of foreign currency derived from exports. Merchants are confident to obtain sufficient foreign exchange themselves, but they are frustrated by their govt. which embargoes the importation of goods. The Chinese Government may further cut the import quotas but ought to sanction importation of essential materials through private financing. Chinese and foreign merchants will then be able to improve trading immediately.

### Business With Britain

Trading with the United Kingdom and other sterling countries has shown good signs of improvement and further advance in the next six months is taken for granted. More British made goods are expected to be brought into the Colony at a much more reasonable price when compared with American and other European merchandise.

The local importer has come to appreciate the high standard of British made goods. No complaints were heard about any commodities shipped here from the U.K. which cannot be said of any other country, including the U.S., Australia and other industrial nations. British companies' promises were always kept and there were no delays; often earlier shipment than was originally agreed. Many Chinese merchants deplore their misfortune of not having ordered more goods from Britain after having found out, much to their own damage, that manufacturers and exporters in all too many other countries have not always delivered according to specifications.

The prewar British slogan of "Buy British it's Best" has been found to be true by many local importers who did not know so before. Unfortunately, the British export drive did not gather full momentum until the latter part of 1947 and thus it was not always easy to make one's purchases in England. Besides there are so many U.K. priorities for urgently required goods which has caused hundreds of waiting lists for British goods to remain unfulfilled.

\* The views of a large number of local Chinese importers and exporters are summarised by a local Chinese trader who wrote the above article which has been slightly condensed.



## SURVEY OF TIN PRODUCTION IN YUNNAN

By JENSHINE SHEN\*

China holds the fifth place of tin production in the world. The main tin producing area in China is Yunnan province. The total output of tin from other provinces viz. Hunan, Kwangsi, only amounts to one tenth of Yunnan production.

Kochiu, located in south east of Yunnan, is the most prominent producing area of Yunnan tin. The Yunnan Indo-China Railway now terminates at a small town called Pisu'tzang, from where a narrow rail (only 0.6 meter gauge) leads via Montze to Kochiu. A short cut from Kaiyuan to Kochiu by highway is only 54 kilometers in distance. Owing to lack of new equipment, the traffic on either way is rather troublesome.

\* The author of the above survey of tin production and marketing in Yunnan has recently visited the Kochiu mines where he found great assistance from the Vice-President of the Yunnan Consolidated Tin Corporation, Dr. H. Sheng Lu. This Review and Mr. Shen are very much indebted to Dr. Lu for the valuable information which was so generously supplied. The author, who previously contributed to this Review articles dealing with the bristle and tobacco trade in Yunnan, is connected with one of the leading commercial enterprises in South China.

### CHINESE MERCHANTS' PETITIONS

The Hongkong Chinese Chamber of Commerce has submitted its five-point petition (for text of this petition, see page 134, our issue Feb. 12) to the Executive Yuan in Nanking, the All-China Export-Import Board in Shanghai, the Kwangtung Provincial Government, the South China Regional Committee of Import Export Board in Canton. The Chamber also forwarded a copy of the petition for reference to the Canton Chamber of Commerce.

Drafted by its secretary, Mr. H. Y. Tso, after extensive study and an investigation of its 17-man special committee, the Chamber's petition asked for a general revision of the existing unrealistic trade restrictions in China.

The Executive Yuan on Feb. 17 replied to another of the many recent petitions, namely, the one lodged by the Nam Pak Hong Guild, the most influential native dealers' body in Hongkong. The text of the guild's petition was published in our issue of Feb. 4 (page 105). In its reply the Executive Yuan simply acknowledged receipt of the petition and stated that the petition has been forwarded to the South China Regional Committee of Export-Import Board for study and investigation.

Kochiu, lying in a valley of mountains, is 1,700 meters above sea-level, (longitude 103° 30' E., latitude 23° 24' 55" N., a little south of tropic of Cancer).

Tin mines are not only in Kochiu, they also extend eastward Montze, north-eastward Chien-Shuay. It is said that the tin mine extends southward, passing through Siam and Isthmus of Kra, ultimately connecting with the tin mines in Malay. The fact that tin is produced in Siam (1937—16,494 tons; 1938—13,530 tons, 1939—16,970 tons; 1940—17,447 tons; 1941—16,250 tons) proves the guess might be true to some extent. The Central Research Institute of China has sent a geologist to Kochiu to help trace new mines along this southward line.

The world tin production cannot cope with world consumption. Production in 1906 was around 100,000 tons, 1927 around 150,000 tons, 1929 reached 192,600 tons, 1937 over 200,000 tons, 1941 Jan. to Oct. amounted to 259,887 tons. The world out-put fell suddenly to 73,851 tons after outbreak of war.

The 1947 output of tin was not over 140,000 tons. Besides the self-consumption of tin in producing countries, the amount allocated to non-productive countries through the Combined Tin Committee in London was over 89,000 tons. For example, China could hardly fulfill her demand as the total output in 1947 was only 3,800 tons against her annual consumption of 3,500 tons. However, by government control and high price inducement of USSR, the total export of tin from China in 1947, official and smuggling, was estimated at 2,000 tons.

#### Mines in Kochiu

Tin mines in Kochiu are divided into six regions:—

(1) Wai-tze-kai mines:—from Wai-tze-kai extending to Hwang-mao-san, lying south by east to Kochiu town. It is the principal mine of Yunnan Consolidated Tin Corporation. The elevation is 2,449 meters above sea-level (called "old mine"). Ore in this region has been mined since 1709. Private miners worked with very primitive technique, and only dug the ore not more than 100 meters in depth.

The Y.C.T. Corporation, a merger of Tin Trading Company, Yunnan Tin Corporation, and Yunnan Tin Mining Administration of N.R.C., provided two vertical wells of 205 meters in depth each, and 3.6, 3.2 meters in diameter respectively. The total length of the horizontal main tunnels underground is more than 7,000 meters. They are provided with rails and wagons driven by donkeys in the tunnels for the

transportation of ore. The ore is lifted from the well by electric elevators. Sideways diverge from the main tunnels which are very narrow and zig-zag, following the direction of ore deposition. No mechanical equipment could be used in digging such irregular mines. Sometime, the ore seems to be exhausted at certain points but it might be very rich in deposition after passing through the narrow neck (like a V-shape). Many geologists and mineralogists have made different estimations of tin-ore deposition in Yunnan, but they are not reliable because of the aforementioned mine irregularity.

Electric lights are in main tunnels, while acetylene lamps are used by workers in sideways. Calcium carbide is made in Kaiyuan by the plant of Yunnan Joint Factories Inc.

The Corporation produces every day about 90 tons of raw ore which contains about 6% of Cassiterite (stannic oxide) or equivalent to 4% of tin content. Native ore miners produce one third of the Corporation's output.

(2) Malaka mine:—(located north by east to Kochiu town). This is the "new mine" of the Corporation. The elevation of this region is 2,340 meters above sea-level. The ore is also Cassiterite, but the percentage of tin content is not as rich as that from the "old mine". The average Cassiterite content in raw ore is only 2%, which is equivalent to 1.5% of tin in raw ore.

The vertical well is 1,130 meters in depth. Four tunnels are drilled at four different levels of 220, 540, 720, and 1,125 meters. Lengths of those tunnels are 22, 1,250, 400, 500 meters respectively.

The equipments are same as that in "old mine". Daily output is about 200 tons of raw ore.

The transportation facility between this mine and the ore-dressing plant of the Corporation is a rope way of 3,749 meters in length and 642 meters of elevation. The transportation capacity of this rope way is 200 tons every day, 800 kgs. in each wagon.

(3) New-shi-poo deposit:—(located west to Kochiu town). Tin ore in this region has effloresced and is exposed to the surface though it is covered with few meters of soil and sand. The tin content in raw ore is very lean, about 1% of Cassiterite, but less labour is needed in procuring the ore.

Private enterprises are mining in this region but the output is small.

(4) Wa-fang-chung deposit:—(located at the east border of Kochiu in connection with Montze). There is very little production in recent years in this region.



(5) Kar-fang deposit:—(located south to Kochiu town and extended to the coast of Red River). The topmost of this region is named Chang-chung, where the elevation is 4,750 meters above sea-level. Most of the deposits in this region are owned by the Ma family. The ore also effloresced and lies exposed.

The ore is carried down by water current rushing from the mountain top and is selected at an open ground of lower level. Tin content of this effloresced ore is also low.

(6) Chia-shah-lung deposit:—(located west to Kochiu town). Owing to the low percentage of ore content, bad transportation facility, and panic of private enterprises, production of this region is now suspended.

### Raw Tin Ore

The geological structure of the Kochiu tin mines is a dome formation. The tin deposition is lying just above the volcanic eruption rocks. For centuries the limestone covered on the tin deposition has effloresced and has been dissolved by water, and tin depositions went down to the valley as sandy ore. Some were still retained at the mountain top (the Kar-fang deposition belongs to this kind), and some were flowing down to a lower ground (the New-shi-poo deposition is the example). The frustum of the dome remains still in hard rocky condition and the mine in this region could not be reached until the layer of limestone has been penetrated. The "old mine" is located at the north side of the frustum while the "new mine" at the south.

It is found that the order of the layers of rocks is (1) Limestone (2) Marble (3) Limonite or Hematite (4) Tourmaline (which indicates the possible presence of tin ore) (5) Tin ore (Cassiterite) and differentiation product of Granite (6) Sand, Quartz, and Kaoline.

Tin ore is in co-existence with Pyrite, Limonite, Hematite, Magnetite, Siderite, Wolframite, Gaethite, Ilmenite, Specularite, (all of them are iron ores); Chalococite, Azurite, Malachite, Bornite, (all of them are copper ores); Galenite, Cerussite, (lead ores); Quartz, Kaolinite, Tourmaline, Calcite, Fluorite, Biotite, etc., and a small percentage of antimony, silver, titanium.

Cassiterite is present in form of small grains. Ore dressing is the most important thing in these tin mines.

### Ore Dressing

The raw ore contains in average around 1-6% of Cassiterite. The grain size of Cassiterite is very fine, varying from 16 mesh to 50 mesh. The native method of ore-dressing used by those private units is:

(1) Wash ore in flowing water to procure the ore of suitable grain size and to get off the mud occlusion.

(2) Pile the washed ore on the edge of a brick-made washing trough of 2 meters in width, 4 meters in length, slope of 30° (2 meters), 8° (0.9 meter), 6° (0.9 meter), flat (0.2 meter). Spray water on the ore and let the water flow down together with ore. This is something like the "Film Sizing" principle of ore selecting. Cassiterite, due to its high specific gravity is detained on the upper part of the trough and those lighter minerals go down with mud to the lower part of the trough.

Each batch works 1,200 kilos of raw ore, and the top layer is obtained at 18-22%. After several times of repetition of washing (7-8 times), the final top layer gives purified ore of tin content up to 65%. (The calculated percentage of tin content in theoretical pure Cassiterite is 78%). The middle portion in the trough is called "middling", which is to be washed again in separate troughs. The lowest portion in the trough is called "tailing". It contains a few percent of very fine Cassiterite grains which are beyond their ability or out of economic value to be collected.

(3) The coarser raw ore is ground in a rod-mill, ball-mill, or stone mill of very old type, and treated with washing trough as above.

The Tin Corporation has devoted much effort on the problem of ore selecting. New and improved types of vibrating tables are designed for ore dressing.

A brief sketch of the procedure is as follows:—

Raw ore—Screening—Rod-mill grinding (rodmill of overall diameter 42", rod size of 3" in diameter, 7' 10" in length, 3,500 kilos of rods in one mill, feeding per hour 6 tons of 1:1 ratio of water and ore, driving power 140 H.P., 28 R.P.M.)—Deslime's cone for the separation of finer ore grains—Vibrating table—Purified Cassiterite. (Middling returned to rod-mill and tailing dropped.)

The efficiency of vibrating table is higher than the washing trough, but the cost of dressing is nearly equal in both cases. However, the Corporation still adopts the washing trough system but provided a new device of so called "multiple divided water current" instead of the spraying of water. Up to the writer's observation, the new device proves negative.

### Smelting of Ores

Blast furnace is used for smelting purpose. Coke is used for fuel and at the same time as reducing agent. The furnace gives 7-10 tons of tin in every 24 hours working. The crude tin is about 96% and is going to be purified in reverberatory furnace by remelting at low temperature. Three patents of the refining of crude tin have been re-

gistered with the Corporation. The writer of this article is bound over to secrecy of those patents. They are briefly described as follows:

(1) Eutectic binary and tertiary system remelting and separation of lead by repeated recrystallization process.

(2) Pyrite process of separation of high copper contamination.

(3) Aluminium alloying process of purifying of arsenic and antimony.

The native smelting process is also with a blast furnace but at lower temperature and the reducing agent being charcoal instead of coke. There is no purification process used. The purity of tin depends mainly on the quality of ore.

### Analysis of Tin

The Corporation produces high grade tin and certifies the percentage which is worked out with universal analytic procedure. The World tin standard issued by the Procurement Division of the Treasury Department of U.S.A. and by London Metal Exchange is as follows:

Maximum impurities should not be over:—

Antimony .. .. .	0.40%
Arsenic .. .. .	0.050%
Lead .. .. .	0.050%
Bismuth .. .. .	0.015%
Copper .. .. .	0.040%
Iron .. .. .	0.015%
Silver .. .. .	0.001%
Cadmium .. .. .	0.001%
Nickel and Cobalt ..	0.010%
Sulfur .. .. .	0.010%

Total allowed impurity 0.232%

That is, tin content should not be less than 99.768%.

The Corporation's production could be put to 99.90% of tin content if special order is given.

Trade Mark NRC No. A YCTC, SR Refined tin, 99.90% tin content;

Trade Mark NRC No. C YUNNAN TIN CORPORATION—Common tin, 99.75% tin content;

Trade Mark YUNNAN TIN CORPORATION—Soldier tin, 65% tin content.

The private enterprises produce tin of different purity and do not furnish certificate of analysis data. They estimate the percentage just with naked eyes. The crystalline form of stannous oxide on the surface of tin slabs and the depression on the slab formed when molten tin is cooled down, give indications to experienced observers to judge the percentage of tin.



## The Economy of Kochiu

This small town is living principally by tin. There are neither agricultural crops nor any other products but tin. The most prosperous period was in recent years 1938-1939. The following table gives tin production in Kochiu from 1937-1947.

YEAR	PRODUCTION (In metric tons)
1937 .. .. .	9,187
1938 .. .. .	10,731
1939 .. .. .	10,050
1940 .. .. .	9,094
1941 .. .. .	5,094
1942 .. .. .	4,641
1943 .. .. .	3,096
1944 .. .. .	1,614
1945 .. .. .	1,600
1946 .. .. .	2,200
1947 .. .. .	3,500

In 1938 there were more than 100,000 men working in private mines. They gathered from destitute districts of Yunnan province. The mine owner provided travel expenses and paid proper wages. The prosperity lasted only a couple of years and was all destroyed by the government control of tin trade. During the years of 1943-1945 the National Resources Commission of China offered 18 ozs. of gold to buy every ton of refined tin from private miners. A certain percent of the gold was just issued on a paper. Later, Feb. 1945, the rate was adjusted to 23 ozs. per ton of refined tin. The price offered at that time lagged much behind the producing cost. Nearly all the private mining firms bankrupted and closed down. The workers were less than 10,000 in 1945.

After V-J day, free trade of tin returned. Employment in 1947 was 30,000 men. The Government, however, obliged tin exporters to surrender all their foreign exchange at the official rate, which is nearly 60% lower than the black market rate. Under such conditions business is impossible, arousing resentment on the part of miners.

The stubbornness of the Nanking Government may cripple Chinese exports and has been the chief reason for large scale smuggling.

Tin production during the year of 1948 is expected to be very discouraging. Many private miners have made no profit, many lost during 1947. The Corporation has only produced about 1,200 tons of tin out of the 3,500 tons total production. Private producers are still dependable if new blood was introduced, such as modern equipment and reasonable control of tin business, etc. "A mansion could never be built

with a single beam howsoever it is large."—A Chinese proverb.

## The Troubles of Kochiu

### (1) Labour Conditions:—

Employees in the mines of the private producers work over 10 hours every day. Their nutrition is so bad that their daily staples are only few bowls of worst rice, red-beans, and occasionally a few pieces of bean-curd. Malaria is prevailing in this mountainous town.

The Tin Corporation provides much better working system of 8-hour shifting and furnishes better eating. However, child workers are still employed in both cases.

If the labour condition in Kochiu could be ameliorated, the production might be increased.

### (2) Financial Situation of Private Miners:—

The present financial condition of private miners is very bad. Sometimes, they are obliged to stop work as their current capital is exhausted, especially when the money market is stringent. The Government should provide an amount of money for loans or even buy the private output at market prices. A loan of CN\$ 24 billion has been forwarded to private producers in 1947, but this tiny amount is only equivalent to 16 tons of tin.

The tin price in New York is now US\$ 0.94 per pound or US\$ 2,067.45 per ton. At the prevailing open official rate of exchange, this equals CN\$ 243,960,000 per ton. The Chinese Government has offered this amount for one ton of 99.75% tin delivered in Kochiu by the Tin Corporation.

The present market price of 96% tin ore produced by private miners at Kochiu is around CN\$ 165,000,000 per ton. If the Government would buy the private output at this rate, and the Corporation would refine the tin up to 99.90%; the cost would be:—cost of 96% tin CN\$ 165,000,000 per ton, plus 6% refining loss CN\$ 9,900,000 per ton, plus 6% refining charge CN\$ 9,900,000 per ton, total CN\$ 184,800,000 per ton. This will be lower than the price offered by the Government for buying the tin from the Corporation.

The refining capacity of the Corporation is 10 tons per 24 hours running. The total output of the Corporation was 1,200 tons in 1947.

### (3) Water Supply for Ore Dressing:—

Most of the mines on an average are located 2,500 meters above sea-level. The water used for ore dressing is not available except during the rainy season. Miners have to store water during this season which, however, is not sufficient for the whole year's needs.

There is a lake named Dah-dung Hai, located 2,000 meters below the principal mines and 20 kilometers away. There should be established centrifugal pumps of 150 H.P. each for water supply to each mine. The output depends very much on supply of water.

### (4) Communications and Public Order:—

The transportation facility in this mountainous district depends mainly on animals. Supplies of rice, vegetables, salt, and working equipment are hundred kilometers away. The only modern transportation facility, the rope way, must be repaired as it has worked for 25 years, since it was installed.

Though there are highways between the "old mine" and Montze, and between Kochiu and Kaiyuan, the traffic efficiency is nearly zero due to high maintenance cost of trucks, and bad care of the highways. The Provincial Highway Administration charge maintenance fees from car owners but the road surface is so bad that there is every day the risk of destruction of motor vehicles.

Bandits are frequently seen in the town. The future prosperity of tin business in Kochiu depends on re-establishment of public order which is now sadly lacking.

## PRESENT MARKET PRICE OF TIN

96-98% tin per ton in Kochiu .. .. .	CN\$165,000,000
Local government tax per ton .. .. .	1,520,000
Produce tax .. .. .	1,800,000
National Party tax per ton .. .. .	10,000
Kochiu to Pisu'tzang freight per ton .. .. .	440,000
Pisu'tzang to Kunming freight per ton .. .. .	260,000
Miscellaneous expenses per ton .. .. .	300,000

Cost of tin per ton in Kunming .. CN\$169,330,000



## TIN IN INDUSTRY & COMMERCE

Tin does not occur very widely distributed in nature, no important deposits having been found either in Europe or in the United States. Of the world's total annual output of about 120,000 tons, 60 to 70 per cent. is obtained from the Malay Peninsula and the neighbouring islands of Banca and Billiton, the remainder coming mostly from Bolivia, Australia, Tasmania, Java, South Africa, Cornwall (where tin mines have been worked for thousands of years), and China. By far the greater part of the tin produced in China comes from Yunnan (vide the "Survey of Tin Production in Yunnan" elsewhere in this issue). Smaller quantities are produced in 3 other provinces. In Hunan tin is mined chiefly in the southern part of the province, near the borders of Kwangtung and Kwangsi, the mines extending southwards into both of these provinces; the principal mines are the Anyuan mines in the Ichang district, the Hsiang-hua-ling mines in Lin-wu-hsien, and the mines at Chiang-hua, to the west of Lin-wu.

Many of the tin mines in China are worked by native methods and suffer from a shortage of capital, lack of transportation facilities, and, during the dry season, from an insufficient supply of water for washing the ore.

The ordinary tin of commerce is marketed in the form of ingots or slabs, Yunnan tin being in the form of flat oblong slabs weighing from about 45 to 50 catties each; crude Yunnan tin before the war was sometime exported to Hongkong, where it was refined and then cast into slabs weighing about 70 catties and upwards each. Tin appears on the American market in the form of slabs weighing from 100 to 125 pounds each, and in blocks weighing 4 to 5 pounds each, also in small bars of absolutely pure tin weighing about 1½ pounds each.

### Qualities of Tin

Tin is almost silver-white in colour. Lustrous, soft, rather brittle when cold, more tensile and ductile than lead but less so than zinc, flexible but not elastic, it is more malleable than aluminium but less malleable than copper. At 100° C. it may be rolled into sheets and drawn into wire. It has a melting point of 228° C., and a specific gravity of about 7.3. Tin is very slightly volatile when in the molten state. It crystallises readily, does not tarnish or oxidise at ordinary temperatures, but oxidises on being heated to redness in the open air, forming first a grey powder and then a white oxide of tin—stannic oxide, commonly called "putty powder"—a

substance which is used in producing whiteness in enamels, in grinding glass, and in polishing steel tools, etc. (Inferior kinds of putty powder are prepared from an alloy of three parts tin and one part lead). It alloys readily with other metals, but the addition of any other metal to tin causes the tin to become brittle by changing its fibrous structure to a finely granular structure. When bent, sheet tin emits a peculiar cracking sound called the "cry"; as the cry varies with the different grades of tin, it is used as a rough guide in judging the quality of the metal. Commercial tin is fairly pure, but usually contains traces of other metals, chiefly lead, iron, arsenic, copper, bismuth, antimony, tungsten, manganese, and zinc.

### Uses of Tin

Tin is extensively used as a protective coating on iron or steel sheets, thus forming the product known as "tinned sheets". Formerly sheets used for this purpose were made of wrought iron, but this has now been entirely suppressed by mild steel. At one time the process consisted merely in dipping the sheet of iron into molten tin and allowing it to retain as much tin as it would; but the process must now be conducted in such a manner that the manufacturer knows within 2 ounces exactly how much tin is used in a hundredweight of plates, the coating of tin varying up to 10 pounds for each hundredweight of plates. The thin sheet of mild steel is first thoroughly cleansed by means of sulphuric acid in order to remove all traces of oxide, etc. It is then scoured and afterwards immersed in palm oil or in melted tallow, passed through a flux of chloride of zinc, dipped in molten tin, and then passed through a series of steel rollers which squeeze from the plate all superfluous tin and perfect the coating, the rollers being set in such a manner that the amount of tin on the plate can be regulated with perfect accuracy; the sheets are then dried, cleared of grease, and sorted into grades. An inferior variety of sheets, sometimes known as "terne plate", is coated with an alloy of lead and tin or with lead. A frosted, spangled, or crystallised effect is produced on sheet tin or on tinned plates by treating the sheets with a very dilute solution of nitric and hydrochloric or sulphuric acids, the plate being afterwards washed, dried, and then coated with lacquer or varnish of the desired tint.

Tinned plates are extensively used in the manufacture of alloys; bronze, etc., for making kitchen utensils, etc. Tinned sheets or plates must be distinguished from solid tin sheets or plates.

Tin is also used in lining copper or iron tanks, cooking vessels, etc., while pipes and various other articles are sometimes made of pure block tin.

One of the principal uses of tin is in the manufacture of alloys; bronze, gun-metal, bell-metal, white metal, speculum metal, type-metal, britannia metal, pewter, and solder all contain tin.

Many articles, such as ordinary pins, are coated with tin by being immersed in a boiling solution of peroxide of tin and caustic potash in contact with metallic tin; the process, which is known as "boiling white", is also conducted by means of battery.

"Tinfoil" is sometimes made from practically pure tin, but is most usually manufactured by coating sheet lead with tin and then rolling and beating out the alloy into very thin sheets. In China tinfoil is made by pouring the molten alloy (formed of tin and lead) upon a smooth stone placed in a slightly inclined position and covered with oiled paper; as soon as the surface is covered with the molten metal, the workman drops another flat stone upon it and then steps on to it in order to press the foil out thin. Tinfoil varies considerably in quality according to the proportion of tin and lead present, the higher the percentage of tin, the greater the value; the quality may be estimated roughly, by the colour and hardness, and by the depth of colour produced by rubbing the foil on paper.

Tinfoil is used mainly for packing cigarettes, confectionery, etc., and for lining boxes; the Chinese also use it in large quantities for making sacrificial paper money, imitation silver sycee shoes used in worship, etc.

The chemical compounds of tin are very useful for many purposes, particularly in dyeing. "Tin spirits" is a loose general term which covers several compounds of tin with nitric, sulphuric, hydrochloric, or other acid, the composition varying. "Muriate of tin", also known according to strength as "stannic chloride" or "stannous chloride" is formed by dissolving granulated tin in concentrated hydrochloric acid; sometimes tin crystals are separated from this solution, the remaining "mother liquor" being sold as muriate of tin. Tin muriate or chloride and other compounds of tin are very valuable as mordants in dyeing, yielding brilliant shades of colour; some compounds of tin are used in colouring glass and porcelain and in weighing silk.

By adding caustic soda or caustic potash to a solution of salts of tin a white precipitate is formed. An amalgam of tin and mercury is used in silvering mirrors.